

REPORT OF
ASSOCIATION EXAMINATION
OF
LIBERTY NATIONAL LIFE INSURANCE
COMPANY

AS OF
DECEMBER 31, 2001

PARTICIPATION:
SOUTHEASTERN ZONE
Alabama

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STATE OF ALABAMA
COUNTY OF Jefferson

James L. Hattaway, III, CFE, being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the affairs and financial condition of Liberty National Life Insurance Company for the period of January 1, 1997 through December 31, 2002;

That the following 57 pages constitute the report thereon to the Commissioner of Insurance for the State of Alabama Department of Insurance;

And that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.

James L. Hattaway, III
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this 24TH day of JANUARY, 2003.

Laura Faye Kornegay
(Signature of Notary Public)

LAURA FAYE KORNEGAY
(Print Name)

in and for the State of Alabama.

My commission expires _____ MY COMMISSION EXPIRES MAY 23, 2006



Bob Riley
GOVERNOR

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE**

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Walter Bell
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Chief Examiner
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Birmingham, Alabama
January 24, 2003

Honorable Diane Koken
Chairman, Examination Oversight Committee
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1326 Strawberry Square
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Alfred W. Gross, Commissioner
State Corporation Commission, Bureau of Insurance
Commonwealth of Virginia
Post Office Box 1157
Richmond, Virginia 23218

Honorable Walter Bell, Commissioner of Insurance
State of Alabama Department of Insurance
Post Office Box 303350
Montgomery, Alabama 36130-3350

Dear Commissioners:

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

Liberty National Life Insurance Company
Birmingham, Alabama

at its home office located at 2001 Third Avenue South, Birmingham, Alabama, 35233, as of December 31, 2001. The report of examination is submitted herewith. Where the description "Company" appears herein without qualification, it will be understood to indicate Liberty National Life Insurance.

Accredited Member of the National Association of Insurance Commissioners

SCOPE OF EXAMINATION

The Company was last examined for the five-year period ended December 31, 1996 by examiners from Alabama and Delaware representing the Southeastern and Northeastern Zones, NAIC. The current examination covers the intervening period from the date of the last examination through December 31, 2001 and was conducted by examiners from Alabama representing the Southeastern Zone, NAIC. Where deemed appropriate, transactions subsequent to 2001 were reviewed.

The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Insurance Department's regulations and bulletins, in accordance with the applicable guidelines and procedures promulgated by the NAIC, and in accordance with generally accepted examination standards and practices in connection with the verification of assets and determination of liabilities.

The examination included an inspection of corporate records, test checks of recorded income and disbursement items for selected periods, and a general review of records and files pertaining to operations, administrative practices and compliance with statutes and regulations. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2001 as shown in the Financial Statements contained herein. However, the discussion of assets and liabilities contained in this report is confined to those items where a change was made by the examiners, or which indicated violation of the Alabama Insurance Code and the Insurance Department's rules and regulations or other insurance laws or rules, or which are deemed to require comments or recommendations.

Company office copies of the Annual Statements for the years under review were compared with or reconciled to account balances with respect to ledger items.

The market conduct review consisted of a review of the Company's plan of operation, territory, policy forms and underwriting practices, dividends to policyholders, advertising and marketing, claims payments, policyholder complaints, privacy policy, and agents' licensing practices.

The Company's parent, Torchmark Corporation, maintains an internal audit department, which performs audits for all affiliated companies including the

Company. The examiners were provided summary reports, which the internal auditors provided the Torchmark Corporation Audit Committee.

The Company's accounts were audited by KPMG Peat Marwick for 1997 and 1998 and Deloitte and Touche for 1999-2001. Audit reports, audit workpapers and certain audit confirmations were made available to the examiners and were used where deemed appropriate in the completion of this examination.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2001.

ORGANIZATION AND HISTORY

The Company was incorporated as a fraternal benefit society on August 31, 1900, under the name Heralds of Liberty, pursuant to the provisions of Article 15, Chapter 28, of the Code of 1896 of the State of Alabama. The Declaration, Articles and Certificate of Incorporation were filed and recorded in the office of the Judge of Probate of Madison County, Alabama. The incorporation of the Company was confirmed by a special act of the General Assembly of Alabama on February 12, 1901.

On October 5, 1925, the Declaration, Articles and Certificate of Incorporation were amended to change the corporate name from Heralds of Liberty to Liberty Life Assurance Society and to change the location of the principal office from Huntsville, Alabama to Birmingham, Alabama.

On September 6, 1927, the Alabama Legislature adopted an act designed to authorize and regulate the conversion of fraternal benefit societies into stock life insurance companies or mutual life insurance companies. Pursuant to this act, the Supreme Lodge of the Company, which was the supreme governing or legislative body, adopted a resolution on March 29, 1929, authorizing the conversion of the Company into a stock life insurance company, changing the corporate name from Liberty Life Assurance Society to Liberty National Life Insurance Company and providing for proper amendments to the Declaration, Articles and Certificate of Incorporation.

The object of the Company, as stated in the Certificate of Incorporation, as amended, was to issue insurance upon the lives of persons and every insurance

appertaining thereto or connected therewith, as permitted by the laws of the State of Alabama.

The Company began operations as a stock company on July 1, 1929, with paid-up capital of \$216,830 and paid-in surplus of \$108,415. The authorized capital stock at the date of conversion to a stock company was \$306,125, comprised of 61,225 shares of common stock with a par value of \$5 per share. Since the date of incorporation, a number of changes in the authorized capital have been approved by the stockholders as evidenced by properly recorded amendments to the Certificate of Incorporation. The most recent amendment, adopted at the meeting of the stockholders held December 30, 1980, increased the total authorized capital to \$44,000,000, comprised of 10,500,000 shares of \$4 par value per share common stock and 2,000,000 shares of \$1 par value per share preferred stock, which was the authorized capital at December 31, 2001. The issued and outstanding capital stock at December 31, 2001 was \$42,390,708, composed of 10,265,177 shares of \$4 par value per share common stock and 1,330,000 shares of \$1 par value per share preferred stock. No changes to the authorized or issued and outstanding capital occurred during the current examination period.

Pursuant to an agreement and plan of merger, Globe Life and Accident Insurance Company (Globe Life), Delaware, acquired all of the Company's issued and outstanding stock on May 28, 1980. Globe Life was a wholly owned subsidiary of Torchmark Corporation (Torchmark). In a transaction effective October 1, 1992, Globe Life paid a dividend of all of the issued and outstanding common stock of the Company (10,265,177 shares) to Torchmark, with the Company then becoming a direct wholly owned subsidiary of Torchmark. The 1,330,000 issued and outstanding preferred shares at December 31, 2001 were owned by Torchmark. Additional history on the Company is contained in prior examination reports.

MANAGEMENT AND CONTROL

Stockholders

The Company was a stock corporation with ultimate control vested in its stockholder.

Board of Directors

Members elected to the Board of Directors by the sole stockholder and serving at December 31, 2001, were as follows:

Director	Principal Occupation
City of Residence	
Anthony Leon McWhorter Mountain Brook, Alabama	President and Chief Executive Officer, Liberty National Life Insurance Company
Ronald Dewin Watts Hoover, Alabama	Senior Vice President and Chief Marketing Officer, Liberty National Life Insurance Company
Hillary Carnley, Jr. Eclectic, Alabama	Senior Vice President, Liberty National Life Insurance Company
Larry Mac Hutchison Duncanville, Texas	Vice President, General Counsel and Secretary, Liberty National Life Insurance Company
Charles Britton Hudson, Jr. Plano, Texas	Chairman and Chief Executive Officer, Torchmark Corporation

Committees

As of 12-31-2001, there were no Board Committees. The Liberty National Special Executive Committee for Pension and Welfare Benefit Programs of was dissolved by the Company's Board of Directors in a Unanimous Written Consent of Directors in Lieu of Annual Meeting dated April 24, 1998. The Consent expressly approved all amendments, modifications, changes, and actions previously taken by the Special Committee since its July 8, 1996 formation. Also in 1985, the Board of Directors changed Article IV of the Bylaws no longer requiring the organization of the Executive, Investment, and Contributions Committees. The Board of Directors still have the option to elect from its members a Salary Committee.

Officers

The following officers were elected by the Board of Directors and were serving at December 31, 2001.

Anthony Leon McWhorter	President and Chief Executive Officer
Larry Mac Hutchison	Vice President, Secretary, and General Counsel
Tony Gerald Brill	Executive Vice President
Ronald Dewin Watts	Executive Vice President, Chief Marketing Officer
Hillary Carnley, Jr.	Senior Vice President
Sidney Newell Cheesborough	Senior Vice President
Jack Arnold Kelley, Jr.	Executive Vice President
Elizabeth Ann Allen	Vice President
Charles Brantsford Beene	Second Vice President
Craig Clark Boudreaux	Second Vice President
Gary Michael Burns	Vice President
Margaret Chandler	Second Vice President
Hung-Cheng Chou	Vice President and Chief Actuary
Robert Street Clayton, Jr.	Second Vice President
Terry Wayne Davis	Senior Vice President
Robert Hoyt Dobbs	Vice President
Andrew Marc Dvorine	Second Vice President and Associate Actuary
William Allen Fite	Manager of Internal Audit
Wester Adams Gray	Vice President
Thomas Evan Hamby	Vice President
Ernest Duncan Hamilton	Vice President and Assistant General Counsel
Douglas Harold Harris	Second Vice President
Daniel Lynn Harrison	Regional Vice President
Patricia Gayle Herring	Second Vice President
Jimmy Clyde Hill	Vice President
Kenneth Nolan Johnson	Senior Vice President and Chief Information Officer
Lanny Gene Kelly	Regional Vice President
Michael Joseph Klyce	Treasurer

Constanzo Joseph LaRussa	Second Vice President
John Hartridge Livingston	Associate Counsel, Assistant Secretary
Bobby Ray Loudermilk	Second Vice President
Brenda Kaye Martin	Second Vice President
James Lamar Mayton, Jr.	Vice President and Controller
Danny Curtis McLain	Regional Vice President
Michael Alan Michalke	Second Vice President
Hubert Leon Morrison, Jr.	Vice President
Carr Wilson Patterson	Second Vice President and Associate Controller
Tommy Ray Payne	Second Vice President
James Dewitt Poole	Vice President and Assistant General Counsel
Sammy Dale Rainey	Second Vice President
Fred Warren Sass	Second Vice President
Joseph Frank Simonetti, Jr.	Senior Vice President
David Leon Smith	Vice President
Shirley Witt Taylor	Second Vice President
Russell Benton Tucker	Vice President
Ranal Leighton Vance	Second Vice President
Geary Paul Vickers	Regional Vice President
Jack Davis Wells	Vice President
Freida Jo Dean	Assistant Secretary
Wallace Lee James	Assistant Secretary
Teresa Sanford McCollum	Assistant Secretary
Carol Ann McCoy	Assistant Secretary

Conflicts of Interest

Torchmark Corporation adopted and established a policy and procedure, whereby all directors, officers and responsible employees of Torchmark Corporation and its subsidiaries file annually with Torchmark a questionnaire disclosing to the Board of Directors any possible conflicts between the interests of all directors, officers and responsible employees and the interests of any company in the Torchmark group.

The conflict of interest statements filed by the directors and officers for the five-year period covered by this examination were reviewed. No material conflicts were reported.

Corporate Records

The articles of incorporation and by-laws, as amended, were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations.

Minutes of meetings of the Stockholder and Board of Directors were reviewed for the period under examination. The minutes appeared to be complete with regard to recording actions taken on matters before the respective bodies for deliberation and action.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company

The Company is deemed to be subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975). In connection therewith the Company is registered with the Alabama Department of Insurance as joint registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company as joint registrant.

It was noted that the Company is receiving services at no charge. The premium receipt and processing function was moved to Globe in Oklahoma City. Senior management of Torchmark decided not to charge the Company for this function.

It was noted that the Company did not notify the Commissioner in writing of its intentions of entering into transactions with affiliates that are three percent of the insurer's admitted assets as of the 31st day of December next preceding in accordance with ALA. CODE § 27-29-5(5)(b)(1)b (1975). The transactions and amounts are listed below:

1997

- The acquisition of United Investors Management Bond 8.0 at \$389,665,440.

- The disposal of Vesta Insurance Group Inc. to Torchmark Corporation for \$160,758,810 for a gain of \$73,121,310.

1998

- The acquisition of Waddell & Reed Financial Inc. Class B Common Stock at \$117,687,312.
- The disposal of United Investors Management Company Common Stock for \$117,736,341 for a loss of \$-0-.
- The disposal of United Investors Management Bond 8.0 for \$389,665,440 for a profit/loss of \$0.
- The disposal of Waddell and Reed Bond for \$123,947,000 for a profit/loss of \$0.
- The acquisition of United Investors Life Insurance Company Common Stock from United Investors Management Company for \$279,981,123.
- The acquisition of Torchmark Corporation 6.5% (Series A) Preferred Stock from United Investors Management Company for \$126,467,000.

It was noted that the Company did not disclose transactions with affiliates that involved one-half on one percent or more of the largest companies admitted assets as of December 31 in its Schedule Y-Part 2 in accordance with the NAIC-Annual Statement Instructions. In addition to the transactions listed above, the Company did not disclose the following transactions:

- 1998 disposal of Torchmark Corp. 7.375% (Series A) for \$75,000,000 for a profit/loss of \$0
- 1999 disposal of TMK Development Bond for \$25,250,000 for a profit/loss of \$-0-.
- 1999 disposal of Torchmark Corporation 6.5% (Series A) Preferred Stock for \$60,000,000 for a profit/loss of \$-0-.

During 1997, the Company sold real estate to an individual whose husband performs legal services for the Company. Schedule B - Part 1 of the 2001 Annual Statement disclosed an outstanding balance of \$825,737 on the loan. The examiners noted that:

- 1.) There was no formal appraisal done on the property to determine true market value.

- 2.) The Company made a non-recourse loan to the individual for \$882,803, the total purchase price of the property, which included the payment of \$113,075 for tax liens owed by the individual and her husband.
- 3.) The examiners were not provided with financial statements or credit information regarding the individual's ability to re-pay the loan.
- 4.) There were tax liens on the property and the Company did not have evidence that the tax liens were satisfied, until the examiners requested documentation.

This transaction does not meet the criteria for an arms'-length transaction, as defined by NAIC Accounting Practices and Procedures, SSAP Number 25. The transaction is not material for purposes of this examination. The Company provided the examiners with evidence that the referenced mortgage loan was sold to the Company's parent on December 23, 2002 for the unpaid principal balance of the loan.

The Company acquired a tract of land for \$10,094,000 on December 31, 1998 from an affiliate. The Company disposed of two tracts of this property for \$200,000 and \$165,357 in 2000 and 2001, respectively. The Company's carrying value at December 31, 2001 was \$6,446,483. This amount was non-admitted in the financial statements contained in this report because the Company could not provide evidence that the transactions were fair and reasonable. (See Note 4 in the financial statements). ALA. CODE § 27-29-5(a)(1) (1975) requires that the terms of all transactions with affiliates shall be fair and reasonable." Also, the Company recorded no amounts received or accrued for income on this property. ALA. CODE § 27-41-4 (1975) requires that "No investment shall be an eligible investment unless it is interest-bearing or interest-accruing or dividend or income-paying, is not then in default, and the insurer is entitled to receive for its account and benefit the interest or income accruing thereon."

In addition to the transactions noted above, on June 30, 1999 the Company disposed of Lady Liberty, which had an actual cost of \$3,156,760 for \$10 in order to avoid the upkeep cost. In the 2001 Annual Statement, the Company reported that the statue and property were sold to Torchmark Development Corporation. However, it was subsequently disclosed to examiners that the statue was actually sold to the Urban Center at Liberty Park Owners' Association, Inc. for \$10. In addition, it was noted in the Company's 2000 Annual Statement that the Company sold another tract of land to Torchmark Development Corporation. The tract was actually sold to the Greater Alabama Council, Boy Scouts of America.

Dividends to Stockholder

The following dividends were paid to the Company's parent corporation, Torchmark Corporation, during the current examination period.

YEAR	COMMON STOCK DIVIDENDS PAID	PREFERRED STOCK DIVIDENDS PAID	TOTAL DIVIDENDS PAID
1997	\$158,040,000	\$15,960,00	\$174,000,000
1998	381,117,093	15,960,000	397,077,093
1999	129,000,000	15,960,000	144,960,000
2000	87,840,000	15,960,000	103,000,000
2001	124,040,000	15,960,000	140,000,000

Management and Service Agreements

1. Service Agreement with Torchmark Corporation

- A. The Company entered into an agreement on June 1, 1994 with Torchmark Corporation. Under the terms of the agreement, Torchmark and the Company agreed to provide the following services when requested by the other:
 - a. its executive officers for strategic planning and management advice and assistance;
 - b. its internal financial staff for financial advice and assistance;
 - c. its internal legal staff for legal advice and assistance;
 - d. (intentionally omitted);
 - e. its internal accounting staff for auditing and accounting advice and assistance;
 - f. its internal employee benefit staff for advice and assistance for advice and assistance in connection with employee benefits;
 - g. its internal treasury department for advice and assistance with banking relations, cash management and corporate finance;
 - h. its internal investment department for advice and assistance in the management of its assets and liabilities and the assets and liabilities of current employee benefit plans and any successor plans operated or established in whole or in part for the benefit of the employees of Torchmark or the Company;

- i. its aviation department for use and maintenance of company planes;
and
 - j. its other staff for advice and assistance in connection with such other matters that the parties may from time to time agree.
- B. Under the terms of the agreement, Torchmark and the Company agreed to provide the following payment for services and expenses:
- a. Torchmark shall be entitled to receive from the Company in payment of services a. through i. through j., listed above, 35% of the total of Torchmark's operating expenses for the immediately preceding calendar year. The percentage is determined by the ratio of salaries and benefits of the Company to consolidated salaries and benefits of Torchmark for the immediately preceding calendar year.
 - b. Torchmark shall be entitled to receive from the Company in payment for services listed above, an annual fee based upon the Torchmark's admitted investment in bonds and mortgage loans, less any balances managed by outside advisers as of the December 31 next preceding, calculated as follows:

<u>For Bonds</u>	<u>Basis Points</u>
First 100 million	.003
Next 400 million	.002
Over 500 million	.0015

<u>For Equities</u>	<u>Basis Points</u>
All Levels	.003

- c. Torchmark shall reimburse the Company for any direct expenses incurred by the Company for or on behalf of Torchmark. The Company shall reimburse Torchmark for any direct expenses incurred by Torchmark for or on behalf of the Company.
- C. Payments for services by the Company pursuant to sections a. and b. and c. listed above, shall not include any out-of-pocket expenses incurred in connection with acquisitions. Expenses allocated to the Company shall be limited to expenses directly benefiting the Company if the foregoing formulas were to cause the Company to incur a statutory loss from operations. The Company shall submit invoices monthly to Torchmark, and vice versa, which shall describe in reasonable detail the services provided, the charges therefore and other direct expenses to be reimbursed. Each shall, within thirty days of receipt of such invoice, remit payment in full for the invoiced charges.
- D. In addition to the services included above, the agreement stated that Torchmark would provide the Company with insurance coverage under

policies issued to Torchmark with the Company paying for its portion of the coverage. Also, the Company shall continue to provide Torchmark with such office space and related support services in the Home Office, and Torchmark shall pay the Company a monthly rate of \$32,400 in return.

2. Consolidated Tax Allocation Agreement

- A. The Company entered into an agreement on August 29, 1990, with Torchmark Corporation and other affiliated companies in the holding system. This agreement provided for the following:
1. preparation and filing of consolidated tax returns;
 2. allocation of the consolidated tax liability among the affiliated member of the holding company system;
 3. payment of such tax liability;
 4. compensation to any party for use of its losses or tax credits; and
 5. provision for the allocation and payment of any refund arising from a carry-back of losses or tax credits from subsequent taxable years.
- B. The agreement applied to tax returns beginning with the tax year 1989 and for all subsequent years. The agreement additionally provided that any additional subsidiaries or affiliates would automatically be included in the agreement. All matters under the agreement, pursuant to the terms of the agreement, would be handled in accordance with the Internal Revenue Code.

3. Administrative Service Agreement with Globe Life and Accident Insurance Company (Globe)

- A. As of January 25, 1995, Globe agreed to perform such administrative health claims services and functions as the Company, from time-to-time, might reasonably request and as might be necessary to insure the efficient operation and processing of life and health insurance claims of the Company. Globe shall maintain all records regarding its administration of health insurance claims on behalf of the Company, and shall furnish to the Company and, at the Company's written direction, to insurance regulatory authorities, external auditors, and other designated third parties the foregoing records. Globe shall permit access to the records regarding administration of its health insurance claims and the Globe personnel involved in the provision of such services at reasonable times and places. Globe shall process premium billing and process collections.
- B. Globe shall be compensated of the services and functions performed by a monthly payment of \$36,000. The parties shall review the

appropriateness of the compensation at the end of each year during which this agreement remains in force.

It was noted that the Company is receiving services at no charge. The premium receipt and processing function was moved to Globe in Oklahoma City. Senior management of Torchmark decided not to charge the Company for this function.

4. Service Agreement with United Investors Life Insurance Company (United)

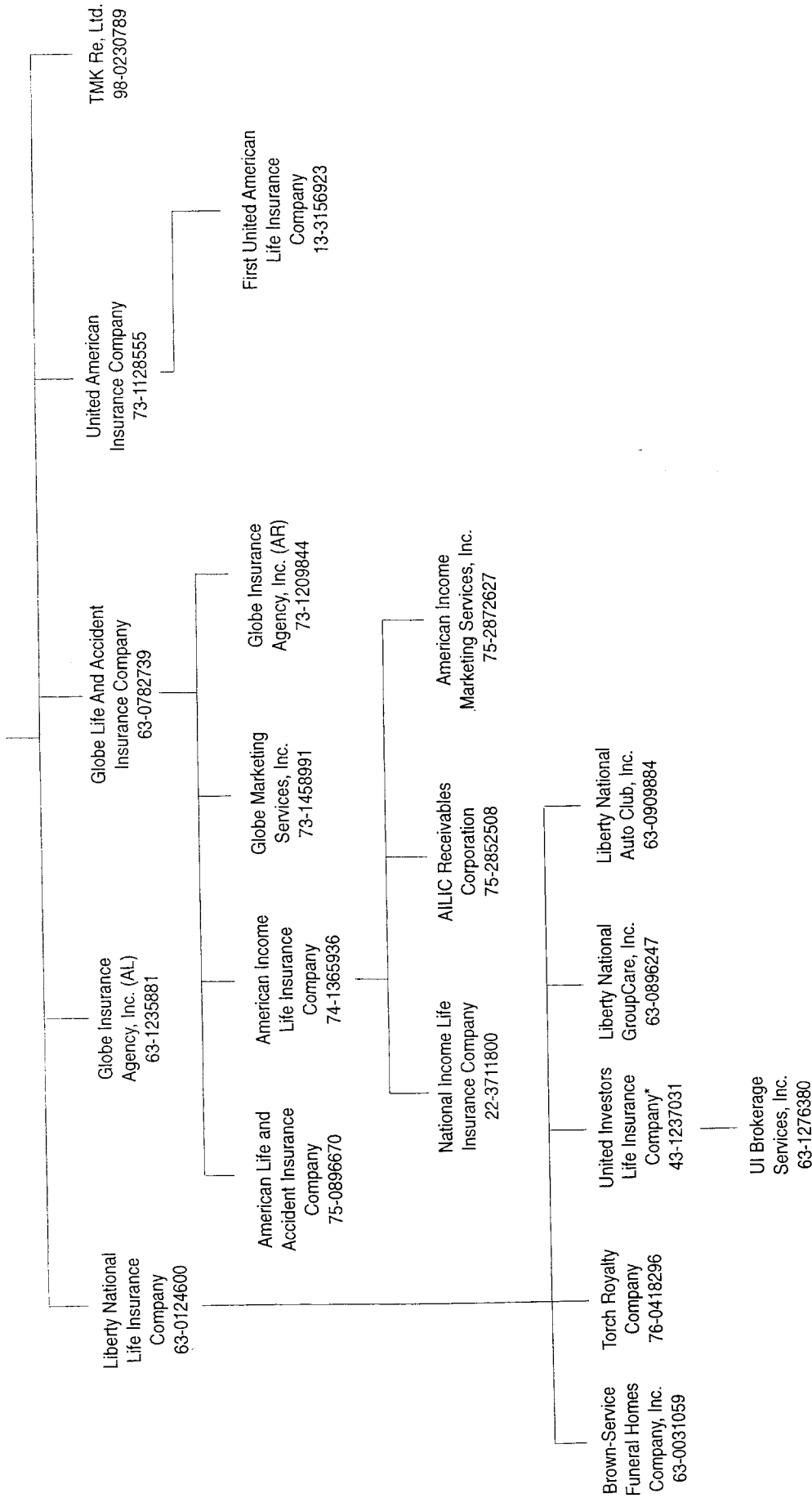
- A. The Company entered into a service agreement with United on January 1, 1985. Under the terms of the agreement as amended, the Company shall perform all such administrative, professional, technical and other home office services and functions as United may from time-to-time, reasonably request and as may be necessary to insure an efficient home office operation for United. The scheduled services, which the Company performed for United, included all home office functions normally performed by an insurance company.
- B. Compensation for the Company by United for the services performed is to be paid monthly in a fixed amount equal to \$42,400 per month. In addition, a variable cost per policy in force is charged. On term insurance written by the Company's agents, United pays a commission of 80% of first year premiums and 15 % on renewal premiums collected.

Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2001.

TORCHMARK CORPORATION

63-0780404



* 19% owned by Torchmark and 81% owned by Liberty National

During the review of the financial statements for the years under examination, the examiner noticed that Schedule Y did not include TMK Re, an affiliate of Torchmark. The NAIC Annual Statement Instructions states: Attach a chart or listing presenting the identities of and interrelationships between the parent, all affiliated insurers and other affiliates, identifying all insurers as such and listing the Federal Employer's Identification Number for each. The NAIC Company code and two-letter state abbreviation of the state of domicile should be included for all domestic insurers. The relationships of the holding company group to the ultimate person (if such person is outside the reported holding company) should be shown. No non-insurer (excluding the parent company) need be shown if it does not have any activities reported in Schedule Y, Part 2, and its total assets are less than one-half percent of the total assets of the largest affiliated insurer.

FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured on a financial institution bond issued by Hartford Fire Insurance Company of Hartford, Connecticut, which met the suggested minimum requirements of the NAIC Financial Examiners Handbook. The bond provided coverage in the amount not to exceed \$5,000,000 single loss limit liability with a single loss deductible of \$100,000. This bond covered the following: forgery or alteration, securities, computer systems fraud, trading loss, and counterfeit currency.

In addition to the aforementioned fidelity bond, the Company also maintained the following coverages to protect the Company against hazards to which it may be exposed:

- Workers' Compensation and Employers' Liability
- Commercial General Liability
- All Risk Property Liability
- Aircraft Physical Liability
- Umbrella Excess Liability
- Mail Loss Liability
- Auto Liability

The coverages and limits carried by the Company were reviewed during the course of the examination and appeared to adequately protect the Company's interests at the examination date. The records of these insurance policies were

being kept in a Torchmark office located in McKinney, Texas. The Company was not in compliance with ALA. CODE § 27-27-29(a) (1975), which states that "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

EMPLOYEE AND AGENT WELFARE

The Company provided its employees and agents with the following benefits at December 31, 2002:

1. Personal Vacation Days.
2. Holidays.
3. Sick Days.
4. Family and Medical Leave.
5. Other Medical Leave.
6. Education Programs.
7. Employee Assistance Program.
8. Medical Plan.
9. Life and Disability Plan.
10. 401(K) Plan: For all employees hired on January 1, 1995 or later.
11. Defined Contribution Plan: For all employees hired on January 1, 1995 or later, who have attained age 21.
12. Torchmark Corporation Savings and Investment Plan: For employees hired before January 1, 1995.
13. Pension (Defined Benefit Plan) for Non-Commissioned Employees hired before January 1, 1995.
14. Pension (Defined Benefit Plan) for Commissioned Employees hired before January 1, 1995.
15. Profit Sharing and Retirement Plan: For employees hired before March 6, 1981.

SCHEDULE OF SPECIAL DEPOSITS

The Company maintained the following deposits with the respective statutory authorities at December 31, 2001, as required or permitted by law:

States and Territories	Par Value	Statement Value	Market Value
Alabama	\$1,650,000	\$1,643,396	\$1,754,555
Arkansas	125,000	125,343	131,914
California	235,000	235,644	247,998
Florida	125,000	125,343	131,914
Georgia	125,000	125,343	131,914
Guam	50,000	50,000	50,000
Massachusetts	125,000	125,343	131,914
New Mexico	235,000	235,644	247,998
North Carolina	125,000	125,343	131,914
Tennessee	400,000	360,299	387,964
Virginia	<u>125,000</u>	<u>125,343</u>	<u>131,914</u>
TOTALS	<u>\$3,320,000</u>	<u>\$3,277,041</u>	<u>\$3,479,999</u>

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

(000's omitted)

	1996*	1997	1998	1999	2000	2001*
Admitted						
Assets	\$3,099,938	\$3,249,683	\$3,363,253	\$3,412,343	\$3,562,031	\$3,731,514
Liabilities	2,766,312	2,895,788	3,024,252	3,097,977	3,185,820	3,347,749
Common						
Capital						
Stock	41,061	41,061	41,061	41,061	41,061	41,061
Preferred						
Capital						
Stock	1,330	1,330	1,330	1,330	1,330	1,330
Paid In and						
Contributed						
Surplus	766	766	766	766	766	766
Unassigned						
Funds						
(Surplus)	290,469	310,738	295,844	271,209	333,054	340,608

*Per Examination

Market Conduct Activities

Plan of Operation

The Company primarily markets its products through 110 district offices in six Southeastern states. These district offices were staffed with 2169 agents, sales managers and district managers at year-end 2001. Outside the district office system, the Company has an agreement with an independent agency, First Command Financial Services, to sell the Company's products predominantly to military personnel.

Agent recruiting and training is performed mainly by the district managers. The Company's home office gives the final approval for hiring new agents.

Territory

The Company was licensed to transact business in the following states and territories at December 31, 2001.

Alabama	Idaho	Mississippi	Pennsylvania
Alaska	Illinois	Missouri	Rhode Island
Arizona	Indiana	Montana	South Carolina
Arkansas	Iowa	Nebraska	South Dakota
California	Kansas	Nevada	Tennessee
Colorado	Kentucky	New Hampshire	Texas
Connecticut	Louisiana	New Jersey	Utah
Delaware	Maine	New Mexico	Vermont
District of Columbia	Maryland	North Carolina	Virginia
Florida	Massachusetts	Ohio	Washington
Georgia	Michigan	Oklahoma	West Virginia
Hawaii	Minnesota	Oregon	Wisconsin
			Wyoming
			Guam

The certificates of authority for the respective states were inspected for the period under review.

Policy Forms and Underwriting Practices

The Company primarily issued policies for traditional life insurance, interest sensitive life insurance, and term life insurance on a non-participating basis to standard and sub-standard risks.

Ordinary policies were sold in a variety of forms within the basic types of life, term, and annuity contracts. Extra benefit riders issued included accidental death benefits, spouse accidental, premium waiver, accident rider, children insurance rider and children's insurance rider with accidental death benefits.

Ordinary policies provided for standard cash values according to plan. Non-forfeiture provisions included cash surrender values, automatic extended term insurance, reduced paid-up insurance, and automatic premium loans. If no non-forfeiture options were elected, the policy was automatically continued on an extended term basis.

The Company also engaged in the marketing and selling of various supplemental accident and health insurance products, mainly the guaranteed renewable cancer expense insurance plan.

The Company's actuarial department is responsible for filing for approval of all policy forms, rates and applications. The procedure followed is to apply for approval from the department of insurance of each state in which the form will be marketed. There were forty-one policy forms that received approval from the Alabama Department of Insurance during the five-year examination period.

In the underwriting of individual insurance, the Company relied upon information developed by agents, and medical and biographical data provided by the policy application. A medical examination might be required based on age, amount of coverage and when it is required based on available data. Based on the information obtained, the Company's underwriting system determined whether an application was to be accepted as submitted, accepted with additional premium or denied. United Investors Life Insurance Company, a subsidiary of the Company, did the underwriting of life policies with coverage of \$50,000 or more.

The Company has also provided additional underwriting guidelines and requirements on individual policies issued for income replacement, estate tax

planning, juveniles, key business person, business continuation, debt repayment and charitable giving.

Dividends to Policyholders

Company records indicated that the following policyholder dividends were paid during the five-year examination period.

YEAR	AMOUNT
1997	\$77,106
1998	\$59,553
1999	\$62,873
2000	\$58,144
2001	\$57,995

Advertising

The Company's home office provided all newspaper advertisements, radio spots and television advertising to the district offices. The agents may opt to produce their own advertisements, which had to be approved by the Company's marketing and law departments before usage. In addition, the Company had a co-op advertising program available for agents in the districts. If the agents opted to participate, they would pay a maximum of \$5 weekly by payroll deduction. These funds went into a cooperative advertising account, which paid 50% of the cost of advertising, with the home office paying the other 50%.

The Company filed the appropriate Certificates of Compliance for advertisements of life and disability insurance, as applicable, certifying that advertisements used by the Company during the period under examination complied with appropriate laws.

The Company's advertising materials for the year 2001 was reviewed. The Company's advertising file contained a specimen copy of all advertisements; however, there was no notation indicating the manner and extent of distribution and the form number of the policies advertised. This was not in compliance with Alabama Department of Insurance Regulation Number 69 Section VII (1), which states:

"Each insurer shall maintain at its home or principal office a complete file containing a specimen copy of every printed, published, or prepared advertisements of its individual policies and specimen copies of typical printed, published, or prepared advertisements of its blanket, franchise, and group policies, hereafter disseminated in this state, with a notation indicating the manner and extent of distribution and the form number of any policy advertised..."

Treatment of Policyholders and Claimants

A sample of claim files, which were reviewed during the examination, indicated that claims were paid in accordance with policy provisions. Settlements were made in a timely manner after receipt of documentation supporting the claim and determination of Company liability. All claims the Company closed without payment appeared to be appropriately resisted.

Policyholder Complaints

The Company maintained consumer complaint files that were received either directly from the customer or through the states' Departments of Insurance consumer department. These files were maintained by year and insured name.

The Company's complaint handling procedures provided for prompt and proper handling of the Complaints. Guidelines were included for the handling of every type of complaint. The complaints officer was responsible for monitoring trends in complaints.

During the examination period the Alabama Department of Insurance received the following complaints/inquiries:

1997	96
1998	81
1999	95
2000	104
2001	83

A review of a sample of complaints revealed that the Company resolved the complaints received in a timely and satisfactory manner. There were no complaint trends noticed except for ones related to authorized rate increases.

Compliance with Agents' Licensing Requirements

The examiners reviewed Company practices on agents' licensing to determine whether the agents, who sold the Company policies, were properly licensed. A sample of agents, paid by the Company during the years 2000 and 2001, was traced to the Alabama Department of Insurance Agents Licensing Division register of appointed agents without exception.

Compliance with ALA. ADMIN. CODE 482-1-122 (2002)

The Company did not share customers' personal information with any nonaffiliated third parties. This was unless permitted under Sections 15 and 16 of the ALA. ADMIN. CODE 482-1-122 (2002). Any information the Company disclosed to any third parties was for the purpose of conducting day-to-day business functions such as the payment of claims. Instructions were in place for employees and producers for the handling of personal information.

The Company provided notices to its customers that indicated the types of information collected, the way it is used and the manner of collection. The notices also informed the customers that the Company did not disclose any information to any nonaffiliated third parties unless permitted to do so by law.

The Company's disclosure of any health information was made only after authorization from its customers unless the disclosures were made under Section 17B of the NAIC model regulation.

REINSURANCE

Reinsurance Assumed

The Company had two contracts for the assumption of reinsurance during the period under examination.

1. One contract was with Lincoln National Life Insurance Company of Fort Wayne, Indiana. At the end of 2001, the Company had a negative premium balance of \$314.
2. The other reinsurance assumed was with Security Benefit Life Insurance (SBL) Company of Topeka, Kansas. The effective date of

the treaty was September 31, 1995, which covered both the bulk assumption and all future issues of SBL of the type policies assumed under this bulk assumption. As of December 31, 2001, the Company had assumed \$2,278,492,655 of in force business, \$148,597,578 in reserve, and \$20,218,454 of premiums.

Reinsurance Ceded

The Company retained an aggregate maximum limit of \$2,000,000 of life insurance on any one life for all ages and classes. Accident and health and annuity risks are ceded by the Company to Security Life Insurance Company.

Ceded to Affiliates

1. Coinsurance Treaty - Globe Life and Accident Insurance Company (Globe)

The Company entered into an agreement with Globe on July 1, 1981, where the Company cedes 100% of the gross premiums on all direct mail non-participating modified whole life policies. Globe has full authority to administer all claims payments arising out of this cession, and is required to maintain all reserves. Globe is also required to pay an administrative expense allowance including reimbursement for all premium taxes paid, all medical examination charges, inspection fees, and other charges incurred in the issuance of the policies.

The contract provides for termination by either party by giving three months written notice. In the event of termination, Globe must pay the Company the life insurance reserves for the subject business. Due to the nature of this contract, the Company receives no economic benefit from this contract, other than the reimbursement of certain administrative expenses. The last examination report recommended that the Company modify its coinsurance agreement with Globe to receive a fair and reasonable ceding commission. The Company did not comply with this recommendation.

ALA. CODE § 27-29-5(a)(1) (1975) requires that the terms of all transactions between affiliates be fair and reasonable. Since this treaty lacks a ceding commission, as is the usual and customary practice for such contracts, this treaty is in conflict with this section of the Alabama Insurance Code.

2. Coinsurance Treaty - United Investors Life Insurance Company (United)

This agreement, dated April 1, 1986, provided that United shall assume 100% of a series of non-participating life insurance policies from the Company. The Company shall pay 100% of the gross premiums collected to United. United is responsible for holding and maintaining all required reserves on the subject business. The Company is responsible for all claims processing and payments, which are to be reimbursed 100% by United. All out-of-pocket expenses shall be reimbursed by United. However, compensation for salaried officers and employees shall not be considered out-of-pocket expenses. Administrative expenses shall be reimbursed according to an administrative agreement.

Both United and the Company have agreed that in the payments of extra-contractual or punitive damages, the parties shall evaluate their relative responsibilities and share such settlements or judgments as each party should bear.

United shall pay the Company a fee of 2.5% of all premiums collected on the subject business, except for single premium policies, where the fee shall be .5% of collected premiums.

3. Coinsurance Treaty - TMK Re, Ltd (TMK)

The Company entered into a modified coinsurance agreement with TMK on January 1, 2000. The Company ceded only the life insurance benefits to TMK. Liberty will pay the reinsurance premiums equal to the gross premiums collected on the subject business. Also, TMK will pay Liberty a commission and expense allowance. TMK will pay Liberty the portion of claims paid by Liberty and the portion of the cash surrender valued paid by Liberty, both which corresponds to the portion of the policies reinsured. The Company is responsible for the settlement of claims with claimants and will maintain records to support its claim payments. Liberty shall administer the policies reinsured and shall perform all accounting for the policies. In addition, TMK will pay Liberty an experience refund if the formula described in the agreement produces a positive number. If the formula produces a negative number, the experience refund will be zero and the

remaining negative amount will be carried forward and will be offset against any future positive experience refunds.

It was noted that the Company could not locate the original letter of credit at its home office. The Company requested and received a duplicate original letter of credit from Bank One. According to ALA. CODE § 27-27-29(a) (1975) "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods of systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Other Reinsurance Ceded

The Company has nineteen other reinsurance treaties per Schedule S - Part 3 - Section 1. Of these treaties, reserve credits were taken on twelve. Most of these treaties were terminated and in run-off. Five treaties were active.

Lincoln National Life Insurance Company of Fort Wayne, Indiana. The Company is to pay for all medical examinations and inspection fees. This treaty covers the excess over \$500,000 on military individual life policies.

Lincoln National Life Insurance Company of Fort Wayne, Indiana. This treaty provides 100% coinsurance on a block of group life policies.

North American Reassurance Company (Swiss RE) of New York, New York. This treaty is to automatically reinsure any risk in excess of \$2,000,000 and less than \$4,000,000 on any one life. This treaty also provides facultative coverage on risks exceeding \$5,000,000.

Security Life Insurance Company of America of Minnetonka, Minnesota. Security Life reinsures 100% of all group dental policies covered.

First Command Life Insurance Company of Fort Worth, Texas. The policies reinsured under this agreement are those policies, including preliminary term insurance, riders, and supplemental benefits that are solicited by First Command financial Services, Inc., formerly Independent Research Agency for Life Insurance, Inc, its affiliates, and successors on behalf of the Company. The amounts reinsured are 5% Quota share for policies with issue dates on or after July 7, 2001.

ACCOUNTS AND RECORDS

It was noted during the review of the logical and physical security section of the information systems questionnaire that the Company does not perform periodic checks to confirm that employees' current application access is commensurate with their job responsibilities.

Because the Company provided a security change request form that included Vesta (a former affiliate) as one of the Company's who may request a change of authorized personnel to access the Company's system, the examiner investigated this issue. Since September 1998, the Company had allowed Vesta to inquire into the Company's databases for historical purposes without a contractual agreement. According to the ALA. ADMIN. CODE 482-1-122.07 (2002), a licensee is to describe its policies and practices with respect to protecting the confidentiality and security of nonpublic personal financial information by: (a) describing in general terms who is authorized to have access to the information and (b) stating whether the licensee has security practices and procedures in place to ensure the confidentiality of the information in accordance with the licensee's policy. As of June 1, 2002, the Company discontinued Vesta's inquiry into the Company database.

During the review of the Logical and Physical Security section of the Information Systems Questionnaire, the Company provided system access procedures which require that all employees who have a need to use the online system be granted access with written approval by management. It was determined that the IS department had not been completing the appropriate forms for employees whose job responsibilities required the use of system access.

FINANCIAL STATEMENTS

The financial statements included in this report were prepared on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2001. Amounts shown in the comparative statements for the years 1997 through 2000 were compiled from Company copies of filed Annual Statements.

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THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

LIBERTY NATIONAL LIFE INSURANCE COMPANY
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	ASSETS	NON- ADMITTED ASSETS	NET ADMITTED ASSETS
Bonds (Note 1)	\$3,066,619,257		\$3,066,619,257
Preferred stocks (Note 2)	81,281,000		81,281,000
Common stocks (Note 3)	139,012,275		139,012,275
Mortgage loan on real estate	103,144,793		103,144,793
Real estate: Properties occupied by the company	12,549,307		12,549,307
Real estate: Properties held for sale (Note 4)	9,120,301	6,446,483	2,673,818
Policy loans	171,181,695	218,353	170,963,342
Premium notes	1,807		1,807
Cash and short-term investments (Note 5)	44,148,407		44,148,407
Other invested assets	17,169,187		17,169,187
Gas and oil tax credit receivable (Note 6)	5,001,000		5,001,000
Amounts recoverable from reinsurers	223,767		223,767
Amount amounts receivable under reinsurance contracts	47,279		47,279
Electronic data processing equipment and software (Note 7)	158,975		158,975
Federal and foreign income tax recoverable and interest thereon (Note 8)	16,331,000		16,331,000
Guaranty funds receivable or on deposit	729,384		729,384
Life insurance premiums and annuity considerations deferred and uncollected on in force business	9,980,373		9,980,373
Accident and health premiums due and unpaid	985,088		985,088
Investment income due and accrued	60,494,403		60,494,403
Amounts due from agents	11,547,126	11,547,126	
Other assets nonadmitted	2,870,171	2,870,171	
Disallowed interest maintenance reserve	6,843,797	6,843,797	
Deposits and bad checks in course of collection	11,276	11,276	
Computer software	14,712	14,712	0
TOTAL ASSETS	<u>\$3,759,466,380</u>	<u>\$27,951,918</u>	<u>\$3,731,514,462</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

LIBERTY NATIONAL LIFE INSURANCE COMPANY
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

Liabilities, Surplus and Other Funds	
Aggregate reserve for life policies and contracts (Note 9)	\$2,886,898,228
Aggregate reserve for accident and health policies (Note 10)	296,888,710
Liability for deposit-type contracts	2,789,909
Policy and contract claims: Life (Note 11)	17,163,130
Policy and contract claims: Accident and health (Note 12)	37,938,500
Policyholders' dividends due and unpaid	466
Dividends apportioned for payment to 12/31/2002	65,000
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	9,900,445
Commissions to agents due or accrued	4,572,000
General expenses due or accrued (Note 13)	21,439,149
Taxes, licenses and fees due or accrued	1,372,890
Unearned investment income	1,507,289
Amounts withheld or retained by company as agent or trustee	6,335,032
Amounts held for agents' account	2,504
Remittances and items not allocated	1,537,304
Asset valuation reserve (Note 14)	31,757,212
Reinsurance in unauthorized companies	57,094
Payable to parent, subsidiaries and affiliates	2,027,481
Payable for securities	25,496,755
Total liabilities	<u>\$3,347,749,098</u>
Common capital stock	41,060,708
Preferred capital stock	1,330,000
Gross paid in and contributed surplus	766,066
Unassigned funds (surplus) (Note 15)	340,608,590
Total Capital and Surplus	<u>\$ 383,765,364</u>
TOTAL LIABILITIES, SURPLUS AND OTHER FUNDS	<u>\$3,731,514,462</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

LIBERTY NATIONAL LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1997, 1998, 1999, 2000, AND 2001

(ooo's omitted)	1997	1998	1999	2000	2001
Income					
Premiums and annuity considerations for life and accident and health policies and contracts	\$498,356	\$519,477	\$538,857	\$453,257	\$477,735
Considerations for supplementary contracts with life contingencies	46	115	5	22	131
Considerations for supplementary contracts without life contingencies and dividend accumulations	601	808	874		
Net investment income	312,408	308,811	261,391	264,135	274,850
Amortization of interest maintenance reserve	497	279	-96	-1,055	-449
Commissions and expense allowance on reinsurance ceded	205	196	141	34,674	23,462
Reserve adjustment on reinsurance ceded				52,199	49,773
Aggregate write-ins for miscellaneous income	3,225	2,859	3,125	8,552	8,005
Total income	\$815,338	\$832,545	\$804,297	\$811,784	\$833,507
Deductions					
Death benefits	\$138,049	\$146,633	\$154,166	\$148,546	\$154,867
Matured endowments	1,809	1,814	2,266	2,668	2,120
Annuity benefits	19,289	19,167	16,125	20,752	14,806
Disability benefits and benefits under accident and health policies	93,793	106,902	116,161	116,358	120,950
Surrender benefits and withdrawals for life contracts	32,805	36,933	37,538	38,252	36,278
Interest and adjustments on policy or deposit-type contract funds	394	467	444	705	876
Payments on supplementary contracts with life contingencies	173	176	182	166	165
Payments on supplementary contracts without life contingencies	678	1,358	919		
Increase in aggregate reserve for life and accident and health policies and contracts	147,203	160,811	165,632	75,582	144,758
Increase in reserve for supplementary contracts	62	-424	62		
Commissions on premiums, annuity considerations and deposit-type contract funds	84,823	90,084	94,619	101,486	102,639
Commissions and expense allowances on reinsurance assumed	4,429	4,199	3,933	3,780	3,606
General insurance expenses	53,352	54,230	53,494	55,622	54,090
Insurance taxes, licenses and fees	14,111	15,841	18,500	17,314	17,920
Increase in loading on deferred and uncollected premiums	-194	-64	51	46	215
Aggregate write-ins for deductions				85,989	
Total deductions	\$590,776	\$638,127	\$664,092	\$667,266	\$653,290
Net gain from operations before dividends to policyholders and federal income taxes	\$224,562	\$194,418	\$140,204	\$144,518	\$180,217
Dividends to policyholders	77	60	63	58	58
Federal income taxes incurred	40,328	36,610	37,037	44,099	42,926
Net realized capital gains or losses less capital gains tax and transferred to the IMR	29,339	-17,417	-23,691	5,551	-10,833
Net income	\$213,496	\$140,331	\$79,413	\$105,912	\$126,400

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

LIBERTY NATIONAL LIFE INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1997, 1998, 1999, 2000, AND 2001

	1997	1998	1999	2000	2001
Capitol and surplus December 31, Previous Year	\$337,716,231	\$353,894,692	\$339,001,446	\$314,366,543	\$376,211,057
Net income	213,496,359	140,330,322	79,413,692	105,912,638	126,400,638
Change in net unrealized capital gains and losses	-74,138,511	265,804,811	-6,595,393	-7,743,963	-528,484
Change in deferred income tax					-641,000
Change in nonadmitted assets and related items	21,710,216	703,094	5,483,665	-9,777,618	11,027,151
Change in liability for reinsurance in unauthorized companies					-57,094
Change in reserve on account of change in valuation basis			23,962,085		
Change in asset valuation reserve	67,922,872	-14,255,180	18,061,048	-4,342,587	-1,326,626
Cumulative effect of changes in accounting principles					17,448,149
Dividends to stockholders	-174,000,000	-397,077,093	-144,960,000	-103,000,000	-140,000,000
Increase surplus for initial reserves ceded				85,988,904	
Amortize gain on inforce business ceded				-5,192,860	-4,768,427
United Investors Management Co. dividend note valuation reserve	-38,812,475	38,812,475			
Prior year tax refund		627,655			
Phase III Federal Income Tax on sale of Affiliate		-49,839,330			
Net change in capital and surplus for the year	16,178,461	-14,893,246	-24,634,903	61,844,514	7,554,307
Capital and surplus, December 31, current year	\$353,894,692	\$339,001,446	\$314,366,543	\$376,211,057	\$383,765,364

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

\$3,066,619,257

The captioned amount is the same as reported in the Company's 2001 Annual Statement.

The examiners' review disclosed that the Company had one security, with an aggregate book value of \$23,500,000, which had not been submitted to the NAIC Securities Valuation Office in accordance with Alabama Department of Insurance Regulation Number 98 for valuation within the prescribed time limit. The security was acquired by the Company in 1996, but was not submitted to the NAIC Securities Valuation Office until 2002. The Company received a valuation from the NAIC Securities Valuation Office for the Torchmark Acquisition security.

A review of the Company's acquisitions and dispositions of bonds determined that the Company applies a cutoff date on December 31 for these transactions. This is different from the December 25th cutoff date that is used for all other items in the Annual Statement.

Note 2 - Preferred stocks

\$81,281,000

The captioned amount is the same as reflected in the Company's 2001 Annual Statement.

The examiners' review disclosed that the Company acquired preferred shares of Torchmark Corporation in 1998, with an aggregate book value of \$51,281,000. There was no evidence that the Company had filed a SUB 1 form for valuation. Therefore, the Company was not in compliance with the Alabama Department of Insurance Regulation Number 98, which requires that securities be submitted to the SVO for valuation in accordance with the procedures of the SVO. The Company filed a SAR on July 31, 2002. The valuation received from the SVO agreed with the Company's carrying value.

Note 3 - Common stocks

\$139,012,275

The captioned amount is the same as reflected in the Company's 2001 Annual Statement.

The examiners' review disclosed that the Company's shares of United Investors Life common stock, with a book value of \$135,404,711, was not valued in the prescribed time in accordance with Alabama Department of Insurance Regulation Number 98. The Company acquired shares of the common stock in 1998; however, the SUB 1 filing was not filed until 2002. It was determined that the carrying value agreed with the valuation received from the SVO.

Note 4 – Real estate: Properties held for sale

\$2,673,818

The captioned amount is \$6,446,483 less than the \$9,120,301 reported in the Company's Annual Statement as of December 31, 2001.

The Company acquired a property for \$6,446,483 in 1998 from an affiliate and did not have an appraisal on the property. An appraisal is required in order to obtain the fair value as required by SSAP No. 40, paragraphs 11 and 12. Real estate shall not be valued at an amount greater than the fair value as determined by recent appraisal as specified in ALA. CODE § 27-37-7(b) (1975). In addition, the Company did not demonstrate to the examiners that this was a fair and reasonable transaction. This property held for sale is not admitted in this examination report.

The Company also inappropriately classified its home office property and three other properties as “properties held for sale.” The aggregate admitted value of these properties was \$2,673,721.

Note 5 - Cash and short-term investments

\$44,148,407

The captioned amount for cash and short-term investments is the same as reported by the Company in its 2001 Annual Statement.

A review of the Company's repurchase agreement disclosed that the Company is not receiving collateral having a fair value at least equal to 102 percent of the purchase price paid by the Company for the securities. In accordance with SSAP No. 45, section 8. a. of the NAIC's Accounting Practices and Procedures Manual, the reporting entity shall receive as collateral transferred securities having a fair value at least equal to 102 percent of the purchase price paid by the reporting entity for the securities. If at anytime the fair value of the collateral is less than 100 percent of the purchase price paid by the reporting entity, the counterparty shall be obligated to provide additional collateral, the fair value of which, together with fair value of all collateral then held in

connection with the transaction, at least equals 102 percent of the purchase price.

Note 6 – Gas and oil tax credit receivable

\$5,001,000

The captioned amount is the same as reported in the Company's Annual Statement as of December 31, 2001.

As of the date of the last examination report, the Company non-admitted the Gas and Oil Tax Credits Receivable. Company management maintains that the NAIC gave them instructions on how to classify and value the asset; however, no written documentation from the NAIC was provided evidencing the permission to admit and classify the account as "Aggregate Write-Ins for Invested Assets" in the Annual Statement. In addition, the Company did not provide documentation that the asset is admissible under the NAIC Accounting Practices and Procedures Manual.

No change was made to the financial statements contained in this Report of Examination due to lack of materiality. In addition, Company management has represented that this asset will no longer exist as of December 31, 2002.

Note 7- Electronic data processing equipment and software **\$158,975**

The captioned amount is the same as reported by the Company in its 2001 Annual Statement.

The NAIC Annual Statement Instructions require that the Company report electronic data processing equipment and software on Line 13, Page 2 of the Annual Statement. The Company appropriately non-admitted the software but included it as a write-in for other than invested assets.

Note 8 – Federal and foreign income tax recoverable

\$16,331,000

The captioned amount is the same as reported by the Company in its 2001 Annual Statement.

It was noted that the Board of Directors did not approve the Consolidated Tax Allocation Agreement. In accordance with SSAP No. 10, paragraph 23b, a reporting entity shall disclose the substance of the written agreement, approved by the reporting entity's Board of Directors, which sets forth the manner in

which the total combined federal income tax for all entities is allocated to each entity which is a party to the consolidation.

Note 9 - Aggregate reserve for life contracts

\$2,886,898,228

The captioned amount is the same as reported by the Company in its 2001 Annual Statement.

The Company provided a listing of policies that lapsed in 2001. It consisted of a population 115,372 policies, which was 1075 policies lower than the amount reported on the 2001 Annual Statement, Exhibit of Life Insurance line 15, column 3. This difference was discussed with the Company to determine whether the actuary could provide an explanation or reconciliation of the difference. The chief actuary attested that he believed the difference was not significant and that it might be due to the inclusion of lapsed policies from other systems. No reconciliation or adequate explanation was provided.

ALA. CODE § 27-32-7 (1975), requires deferred annuity reserves be calculated in accordance with the Commissioners Annuity Reserve Valuation Method (CARVM). The Company holds cash surrender value as the reserve for all deferred annuities. For annuities past the surrender charge period, the cash surrender value is the same as the accumulation value. The examiners reviewed the various policy forms involved for deferred annuities to ascertain whether there were any situations where the accumulation value would not be sufficient under CARVM reserve requirements (special settlement options, nursing home options, current interest rate guaranties in excess of CARVM maximum interest rate extending beyond the valuation date, etc.). After determining that no such policy provisions or Company practices exist, the examiners determined that the accumulation value, for annuities past the surrender charge period, was sufficient for reserving purposes under CARVM.

If a policy is within the surrender charge period, CARVM generally produces a reserve higher than cash surrender value. The Company has five deferred annuity plan codes with policies in the surrender charge period. Using a breakdown of these plan codes showing accumulated values by duration, the examiners estimated the additional reserve required to comply with CARVM minimums to be approximately \$328,930. The calculations assumes all policies are issued on July 1st, a not uncommon assumption where exact issue dates cannot be determined.

Since the Company indicated that reserves for currently issued term insurance policies were being held using the pre Alabama Department of Insurance Regulation Number 120 methodology, the examiners performed calculations utilizing the Alabama Department of Insurance Regulation Number 120 methodology to ascertain whether basic reserves under that methodology currently or eventually could exceed those utilizing the Company's current procedures. The examiner confirmed that at some point in the future reserves under the basic methodology of Alabama Department of Insurance Regulation Number 120 may exceed those determined using the Company's current methodology.

The examiners selected certain lines from Exhibit 8.A. from which to draw samples for the purpose of analyzing reserve factors used by the Company. The cells selected from this Exhibit from which samples were drawn constituted approximately 78% of the total reserves.

As recommended in the December 31, 1996 examination report, the Company was able to provide a breakdown by plan codes, and the reserve amounts for them, which comprised each of the reserve cells selected by the examiners. Using the largest plans (by reserve amount) in each of the cells, the examiner then selected sample reserve factor tables to review for each of these plans. Reserve factors were analyzed in lieu of individual policy reserve samples since the Company's reserve system does not maintain seriatim records from their reserve runs. The Company's reserve programs utilize a year-end master in force policy file but program output is not generated on a seriatim basis.

The examiners also requested policy detail for all amounts that the Company could not provide in electronic format. The Company was unable to provide policy detail for several reserve amounts.

The listing of policies issued in 2001 provided by the Company did not reconcile to the Annual Statement Exhibit of Life Insurance, Line 2. The listing provided included approximately 7000 more policies than did the Annual Statement. The Company could not provide an explanation as to the difference between the two numbers.

**Note 10 - Aggregate reserve for accident
and health contracts**

\$296,888,710

The captioned amount is the same as reported by the Company in its 2001 Annual Statement.

For a sample of policies used to verify the accuracy of reserve data in the aggregate reserves for accident and health contract procedures, the Company was unable to provide the application files for all items sampled.

The Accident and Health Claims Liability appearing on Exhibit 11- Part 1 is broken down into three parts: Resisted, Claims Pending (Other), and IBNR (Incurred but Unreported). Resisted claims (\$113,880) are tabulated and deducted from the total. This amount is eventually added back into the IBNR amount of Line 3 rather than being held on Line 2.1. Next, Claims Pending are calculated and deducted from the remaining Claim Pending Liability. The Claims Pending liability is calculated on an aggregate basis. For each line of business, the average claim paid over the last two years is calculated. This average is multiplied by the current number of claims pending for that line. The IBNR is the remainder after deducting the aforementioned liabilities from the Claim Liability. While the examiners have no objections to any of the methods used in calculating the total A&H Claim Reserves and Liability, Schedule H in the 2001 Annual Statement shows a slight inadequacy in total (\$3,658,188). The examiners deem the amount of the inadequacy immaterial.

In order to verify the reserve located on Exhibit 9 of the 2001 Annual Statement, the examiner requested policy detail for all amounts that were included in the recap worksheet. The Company was unable to provide policy detail for several reserve amounts.

The factors used by the Company in determining reserves for Cancer and Disability Income coverages for which an active life reserve is required are mid-terminal reserve factors. The Company does not hold an unearned premium reserve in Exhibit 9, Line 1, of the annual statement to adjust for the understatement of mid-terminal reserve factors but rather includes these net unearned premiums as part of the advance premium liability held elsewhere in the statement by the Company. This methodology for handling unearned premiums, for active life A & H reserves, is unusual but was not felt by the Examiners to be contrary to SSAP no. 51, at least insofar as the true advance premium portion of the advance premium liability is concerned (these are determined on a gross basis).

However, the Examiners feel that using net reserve valuation unearned premiums in respect of accident and health policy forms for which no additional reserve (i.e. no mid-terminal calculation) is held is contrary to Section 12 of SSAP #54. This codification requirement states, in part:

“The minimum unearned premium reserve that applies to the premium period beyond the valuation date shall be based on the valuation net modal premium if contract reserves are required and the gross modal unearned premium reserves if contract reserves are not required.”

According to Company personnel, the Company bases all of its unearned premium calculations on net valuation premiums. The Examiners requested from the Company information on the magnitude of net unearned premiums with respect to A & H coverages for which no additional reserve is being held. The Company was unable to provide the Examiners with that detail. The Examiners reviewed the material provided by the Company in this regard, and made the assumptions that all of the Company's Advance Premium liability was comprised of unearned premiums and further that all unearned premiums held were in respect of A & H policies for which no additional reserve was required (this last assumption is obviously conservative since many of the Company's accident and health plans use issue age premium scales for which additional premiums are required). Under these assumptions, the Company's maximum additional liability, assuming a 50% net to gross ratio, would be approximately \$3.4 million, an amount considered immaterial insofar as this examination is concerned.

The examiners reviewed Column 6 of Part 3 of Schedule H for each of 1999, 2000, and 2001 and determined that in each year claim reserves and liabilities held, with the benefit of hindsight, were inadequate by amounts of \$11,942,331, \$5,710,116, and \$3,825,978 respectively. Although improvement is apparent, the Examiners feel that such a consistent pattern of inadequacy in these liabilities indicates the need for additional margins to be included as part of the calculation of these liabilities. The Examiners' opinion is that the methodologies used by the Company in determining these liabilities are appropriate but the continued underestimation of liabilities should be dealt with by the Company.

Note 11 - Policy and contract claims: Life

\$17,163,130

The captioned amount is the same as reported by the Company in its 2001 Annual Statement.

During the review of policy and contract claims procedures, the examiner was to verify that a sample of claims paid in 2002 and received before 12-25-01 were properly included in the claims pending listings as of year end. The

examiner noted that all claims were not properly included in the claims pending liability of Exhibit 11 in accordance with SSAP No. 55, Section 6b of the NAIC Accounting Practices and Procedures Manual.

During the review of resisted and compromised claims included in the 1997 through 2001 Schedule F of the Annual Statements, the examiner selected a sample and requested claims files and documentation to support the Company's rationale for resisting and compromising claims.

For one particular claim, the Company was unable to provide documentation to support the amount resisted. The Company provided correspondence to the examiner stating that the resisted amount, \$20,000, was incorrect and that the correct amount, \$141,345, should have been included in the Accident and Health resisted claims listing that is reflected in Exhibit 11, line 3.4, column 11.

Note 12 - Policy and contract claims:

Accident and health

\$37,938,500

The captioned amount is the same as reported by the Company in its 2001 Annual Statement.

The examiner noted that the Company included the amount of A&H resisted claims in course of settlement (\$113,880) in the A&H incurred but unreported section of Exhibit 11, column 11. According to the NAIC Annual Statement instructions, the resisted accident and health claims should be included in line 2.2 (Other in course of settlement section) of Exhibit 11 in the Annual Statement.

Note 13 - General expenses due or accrued

\$21,439,149

The captioned amount is the same as reported by the Company in its 2001 Annual Statement.

The examiners determined that the Company under-accrued for one lawsuit at December 31, 2001. In August 2001 a jury awarded the plaintiff \$300,000 in compensatory damages. In December 2001 the trial court denied the Company's appeals regarding damages and a new trial and that the jury award was supported for compensatory damages. In addition, subsequent to this examination, the Alabama Supreme Court reviewed the case and affirmed the trial court's ruling. The Company's estimated accrual at year-end 2001 was \$100,000.

The NAIC Accounting Practices and Procedures Manual SSAP Number 5 states that: "Additionally, in instances where a judgment, assessment or fine has been rendered against a reporting entity, there is a presumption that the criteria in paragraph 7 a. and 7 b. have been met. The amount of the liability shall include the anticipated settlement amount, legal costs, insurance recoveries and other related amounts and shall take into account factors such as the nature of the litigation, progress of the case, opinions of legal counsel, and management's intended response to the litigation, claim, or assessment."

In addition, the examiners determined that the Company did not establish an accrual for expenses to defend outstanding litigation. Based on a review of expenses, settlements, and judgments paid during 2002, it appeared that the aggregate accrual of the Company might be adequate due to a miscellaneous reserve of \$2.9 million above and beyond the accrual established for specific litigation and the accrual estimate which utilized a weighted average methodology for outstanding cases.

It was also noted that the Company was inappropriately charged \$121,813 for legal fees that were incurred by Torchmark Corporation. Originally, the entry was appropriately charged to Torchmark; however, it was subsequently reversed and the fee was charged back to the Company.

It was also noted that the invoices for the Company's primary outside counsel, Baxley, Dillard, Dauphin & McKnight did not contain adequate descriptions concerning the nature of the charges and which entities within the Company's Holding Company System the charges related.

Note 14 - Asset valuation reserve

\$31,757,212

The captioned amount is the same as reported in the Company's 2001 Annual statement.

It was noted that the Company's reserve objective and maximum reserve for unaffiliated private investments with the underlying characteristics of common stocks was not calculated by the correct book/adjusted carrying value. The Company multiplied the experience adjustment factor by the incorrect book/adjusted carrying value of \$6,204,917 instead of \$6,836,154. The amount reported by the Company for the maximum reserve and reserve objective was \$1,551,229. The correct amount for the reserve objective and maximum

reserve was \$1,709,039. Due to the immaterial amount of \$157,810, no changes were made to the financial statement.

Note 15 – Unassigned funds (surplus)

\$340,608,590

The captioned amount is \$6,446,483, less than the \$347,055,073 reported by the Company in its 2001 Annual Statement.

This change resulted from non-admitting investment real estate held for sale by the Company in the amount of \$6,446,483 as disclosed in Note 4 of the Financial Statements contained in this report.

There were no other changes made to the financial statements contained in this report.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The Company's Associate Counsel represented to examiners that there were no material commitments or contingencies not included in Torchmark's June 3, 2002 10(q) filing.

The following disclosures were included in Torchmark's June 30, 2002 10(q) filing:

"As of June 30, 2002, Liberty was a party to approximately 92 active lawsuits (including 10 employment related cases and excluding interpleaders and stayed cases), 67 of which were Alabama Proceedings and 9 of which were Mississippi proceedings in which punitive damages were sought. Liberty faces trial settings in these cases on an on-going basis."

"Based upon information presently available, and in light of legal and other factual defenses available to Torchmark and its subsidiaries, contingent liabilities arising from threatened and pending litigation are not presently considered by management to be material. It should be noted, however, that large punitive damage awards bearing little or no relation to actual damages awarded by juries in jurisdictions in which Torchmark has substantial business, particularly Alabama and Mississippi, continue to occur, creating the potential for unpredictable material adverse judgments in any given punitive damage suit."

"...Liberty was served on October 28, 1999 with a subpoena from the Florida Department of Insurance in connection with that Department's investigation into Liberty's sales practices and disclosures in the State of Florida regarding industrial life insurance and low coverage life insurance policies. Liberty has also received similar subpoenas from the Alabama, Georgia, Kentucky, Texas, South Carolina and Minnesota Insurance Departments regarding its industrial life insurance and other low face-amount life insurance policies sold in those states. Specific inquiry is made into the historical use of race-distinct mortality in the design or pricing of industrial insurance, a practice believed to be actuarially sound, but nevertheless discontinued by Liberty many years ago. In 1988, Liberty endeavored to convert to paid-up status those policies utilizing race-distinct mortality that remained in premium-paying status at that time. Liberty has been and continues responding to these subpoenas in a timely fashion. In July 2000, the Florida and Georgia Insurance Departments issued cease and desist orders to all companies reporting premium income from industrial life insurance, including Liberty, stating that, to the extent that any

company is currently collecting any race-distinct insurance premiums from Florida and Georgia residents, respectively, it immediately cease and desist from collecting any premium differential based on the race of the policyholders. Upon receiving the Georgia order, Liberty informed the Georgia Insurance Department that Liberty did not interpret the Georgia Department's directive as a cease and desist order since it did not afford Liberty the opportunity for a mandatory or voluntarily requested hearing thereunder. On August 22, 2000, the Florida District Court of Appeals issued an order staying the Florida Insurance Department's immediate final cease and desist order, pending appeals to the Florida Supreme Court. The Florida Supreme Court subsequently reversed and rendered the District Court of Appeals' order, and thus declared the cease and desist order null and void. Liberty, as an Alabama domestic company, was examined by representatives of the Alabama Department of Insurance with regard to issues parallel to those raised by the State of Florida. By order dated January 28, 2002, the Alabama Department finalized a report of its examination of Liberty. The report has now been turned over to the Alabama Department's Legal Division for further consideration."

"On December 8, 1999, purported class action litigation was filed against Liberty in the United States District Court of the Northern District of Alabama (Moore v. Liberty National Life Insurance Company, Case No. CV-99-BU-3262-S), on behalf of all African-Americans who have or have had at the time of policy termination an ownership interest in certain life insurance policies (\$25,000 face amount or less) marketed by Liberty and certain of its former subsidiaries. The alleged class period covers virtually the entire twentieth century. Plaintiffs allege racial discrimination in Liberty's premium rates in violation of 42 U.S.C. § 1981, breach of fiduciary duty in sales and administrative practices, receipt of excessive and unreasonable premium payments by Liberty, improper hiring, supervision, retention and failure to monitor actions of officers, agents and employees, breach of contract in dismantling the debit premium collection system, fraudulent inducement and negligent misrepresentation. Unspecified compensatory and punitive damages are sought together with a declaratory judgment and equitable and/or injunctive relief, including establishment of a constructive trust for the benefit of class members. Defendants filed a motion for judgment on the pleadings or in the alternative for summary judgment on January 27, 2000. On April 7, 2000, the District Court entered an order granting Liberty's motion for judgment on the pleadings and dismissing plaintiffs' claims under 42 U.S.C. § 1981 with prejudice as time-barred and dismissing their state law claims without prejudice to re-file in state court if desired. Plaintiffs subsequently filed

motions with the District Court to reconsider its April 17, 2000 order and for permission to file an amended complaint adding similar claims under 24 U.S.C. § 1982. Liberty opposed this motion. On June 22, 2000, purported class action litigation with allegations comparable to those in the Moore case was filed against Liberty in the Circuit Court of Jefferson County, Alabama (Baldwin v. Liberty National Life Insurance Company, Case No. CV 00-684). The Baldwin case is currently stayed pending disposition of the Moore case."

"On July 3, 2000, the District Court issued an order in the Moore case granting in part and denying in part the plaintiffs' motions. The District Court ordered the Moore plaintiffs to file an amended complaint setting forth their claims under 28 U.S.C. §§ 1981 and 1982 and, if such claims are timely, any state law claims for breach of contract related to the discontinuance of debit collections, and dismissed with prejudice all remaining state law claims of the plaintiffs as time-barred by the common law rule of repose. On July 14, 2000, plaintiffs filed their amended complaint with the District Court and Liberty filed a motion to alter or amend the District Court's July order or, in the alternative, requested that the District Court certify for purposes of appeal the issue whether the state law doctrine of repose should be applied to and bar plaintiffs' actions under §§ 1981 and 1982. The District Court entered such an order on July 21, 2000 and stayed proceedings in Moore pending resolution of Liberty's petition to the U.S. Circuit Court of Appeals for the Eleventh Circuit. Liberty filed a petition on July 30, 2000 with the Eleventh Circuit granting the plaintiffs the right to file the amended complaint. The Eleventh Circuit Court granted Liberty's motion and agreed to consider Liberty's arguments regarding the applicability of the state law of repose to actions under §§ 1981 and 1982. Oral arguments were heard by the Eleventh Circuit Court on July 20, 2001. On September 28, 2001, the Eleventh Circuit Court ruled that the rule of repose was not a bar to the Moore claims in federal court and that there is no reverse pre-emption under the McCarrin Ferguson Act. Liberty filed a petition seeking an en banc rehearing in the Eleventh Circuit Court, which was subsequently denied. Liberty filed a petition for a writ of certiorari with the U.S. Supreme Court on February 21, 2002, which has been denied. The District Court has scheduled the filing of motions for class certification in Moore for November 21, 2002."

"Four individual cases with similar allegations to those in the Moore case which were filed against Liberty in various state Circuit Courts in Alabama remain pending and have been removed and/or transferred to the U.S. District Court for the Northern District of Alabama. The Moore case and all cases transferred to the Northern District of Alabama have been assigned to Judge

U.W. Clemon, a noted former civil rights attorney. In the earliest filed of the individual state court actions, Walter Moore v. Liberty National Life Insurance Company (Circuit Court of Dallas County, Alabama CV 00-306) the Court entered an order granting summary judgment in favor of Liberty based upon the doctrine of repose and has subsequently denied a motion to reconsider its dismissal of this case."

"Hudson v. Liberty National Life Insurance Company, one of the four individual cases referenced above, was filed in the Circuit Court of Bullock County, Alabama on February 28, 2001 (Case No. CV 2001-25) and contains similar allegations to those in Moore. After denials by the Bullock Circuit Court of Liberty's motion to dismiss and request that certain questions arising in the litigation be certified to the Alabama Supreme Court, Liberty sought a writ of mandamus on the certified questions issue from the Alabama Supreme Court. The Alabama Supreme Court agreed to hear Liberty's petition for writ of mandamus seeking to have the Supreme Court direct the trial court to grant Liberty's motion to dismiss or for a summary judgment or to certify for the interlocutory appeal the Circuit Court's denial of such motion. On January 18, 2002, the Alabama Supreme Court denied Liberty's request for the writ of mandamus but noted that Liberty's motion for summary judgment based on the rule of repose remained pending in the trial court and was ripe for adjudication. Upon remand, plaintiff amended his complaint to add causes of action under federal law and this case has been removed to federal court as discussed above."

"In the fifth individual state court action, (Edwards v. Liberty National Life Insurance Company, Case No. CV 0005872), the trial court denied Liberty's motion seeking a summary judgment based upon the rule of repose but indicated that it would reconsider that motion after discovery. Liberty filed a motion to alter or amend the trial court's order, or in the alternative, for an interlocutory appeal. In September 2001, the trial court in that case vacated its earlier order and stayed the litigation pending resolution of the Hudson case, which is discussed above. On February 22, 2002, the trial court held a hearing regarding the stay in Edwards. The trial court permitted the plaintiffs very limited discovery, which is currently being conducted.

"On March 15, 2001, purported class action litigation was filed against Liberty in the United States District Court for the District of South Carolina (Hinton v. Liberty National Life Insurance Company, Civil Action No. 3-01-68078 19), containing allegations largely similar to the Moore case filed in the Federal District Court for the Northern District of Alabama. Liberty was described in

the suit as successor in interest of New South Life Insurance Company (New South), an insurer acquired out of receivership by an entity which was subsequently acquired by Peninsular Life Insurance Company (Peninsular). In 1985, Liberty reinsured a block of insurance business from Peninsular, including business formerly written by New South. Liberty has requested indemnification in the Hinton litigation from Peninsular and its successors in interest. Liberty sought a writ of mandamus in Hinton from the Fourth Circuit Court of Appeals as well as a change of venue to consolidate the Hinton case with the Moore case currently pending in Federal District Court in Alabama. Both the change in venue and the writ of mandamus were denied. However, the South Carolina District Court issued an order inviting the parties to resubmit a motion for change of venue. Liberty National filed such a motion to transfer the case to the U.S. District Court for the Northern District of Alabama, which was granted by the South Carolina District Court on February 12, 2002."

"Another action with similar allegations to Moore, which also includes claims for race discrimination under 24 U.S. C. §§ 1981 and 1982, was filed against Liberty in U.S. District Court for the Northern District of Alabama on January 28, 2002 (Hull v. Liberty National Life Insurance Company, Civil Action No. CV-02-C-0219-W)."

"There are a total of 15 race-distinct mortality cases pending in either the U.S. District Court for the North District of Georgia (two cases) or the Northern District of Alabama (thirteen cases), including Sunday v. Liberty National Life Insurance Company, Case No. CV02-BE-0639-S), in which approximately 460 individuals assert that they had discriminatory insurance policies with Liberty. The Baldwin and Edwards cases remain pending in Alabama Circuit Courts. Plaintiffs' attorneys are actively advertising for additional plaintiffs to join these suits or file additional suits."

"On January 22, 2002, purported class action litigation was filed against Liberty and Torchmark in the Circuit Court of Choctaw County, Alabama on behalf of all persons who currently or in the past were insured under Liberty cancer policies which are no longer marketed regardless of whether such policies remain in force or have lapsed (Roberts v. Liberty National Life Insurance Company. Case No. CV-2002-009-B). Plaintiffs in this action purchased guaranteed renewable cancer policies wherein Liberty reserved the right to change premium rates. They allege that Liberty ceased marketing certain cancer policies - "closed" the block of business-, capping the potential pool of insureds and leading to increased premiums to the remaining insureds. They

further allege that in instituting premium increases on cancer policies after the Robertson v. Liberty National Life Insurance Company class action settlement, Liberty misrepresented the reasons for such premium increases. This action asserts claims for breach of contract in implementing premium rate increases on a basis other than that set out in the policies, misrepresentation regarding the premium increases, fraud and suppression concerning the closed block of business and unjust enrichment. Unspecified compensatory and punitive damages, attorneys fees, costs and interest are sought by plaintiffs. Defendants filed a motion to dismiss or, in the alternative, for summary judgment on March 29, 2002 with the Circuit Court. A hearing on this motion was held on August 7, 2002."

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

Management and Service Agreements - Page 11

The recommendation contained in the last examination report was for the Company to no longer net its receivables and payables to affiliates together in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP 64, paragraph 2. The Company did not comply with this recommendation.

Advertising – Page 21

It was recommended that the Company follow the guidelines established by Alabama Department of Insurance Regulation Number 69 in order to assure truthful, complete, clear, and accurate disclosure to the public of all material and relevant information used or intended for use in its advertisements.

The Company's advertising file contained a specimen copy of all advertisement, however, there was no notation indicating the manner and extent of distribution and the form number of the policies advertised. This was not in compliance with Alabama Department of Insurance Regulation Number 69 Section VII (1), which states:

"Each insurer shall maintain at its home or principal office a complete file containing a specimen copy of every printed, published, or prepared advertisements of its individual policies and specimen copies of typical printed, published, or prepared advertisements of its blanket, franchise, and group policies, hereafter disseminated in this state, with a notation indicating the manner and extent of distribution and the form number of any policy advertised..."

Reinsurance – Page 23

The last examination report recommended that the Company modify its coinsurance agreement with Globe Life and Accident Insurance Company (an affiliate) to receive a fair and reasonable ceding commission. The Company did not comply with this recommendation.

COMMENTS AND RECOMMENDATIONS

Holding Company – Page 8

It is recommended that the Company notify the Commissioner in writing at least 30 days prior to entering into transactions that are three percent of the insurer's admitted assets as of December 31 of the next preceding year in accordance with ALA. CODE § 27-29-5(5)(b)(1)b (1975).

It is recommended that the Company disclose material purchases, sales, or exchanges of loans, securities, real estate, mortgage loans or other investments between affiliated companies as required by Schedule Y.

It is recommended that the Company's transactions with related parties be evaluated by management and nonadmitted if they do not constitute arms'-length transactions. Arms'-length transactions are defined as transactions "...in which willing parties, each being reasonably aware of all relevant facts and neither under compulsion to buy, sell, or loan, would be willing to participate."

It is recommended that the Company maintain evidence that transactions with affiliates are fair and reasonable in accordance with ALA. CODE § 27-29-5(a)(1) (1975).

It is recommended that the Company non-admit investment transactions that are not interest-bearing or interest-accruing or dividend or income-paying in accordance with ALA. CODE § 27-41-4 (1975).

It is recommended that the Company properly disclose the correct parties associated with transactions in its Annual Statement-Schedule A.

Management and Service Agreements - 11

It is again recommended that the Company establish receivables and payables from related parties instead of netting amounts from separate entities in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP 64, paragraph 2.

Organizational Chart – Page 14

It is recommended that the Company include all required affiliates in Schedule Y- Part 1 of the Annual Statement as specified in the NAIC Annual Statement Instructions.

Fidelity Bonds and Other Insurance – Page 16

It is recommended that the Company keep complete records of its fidelity bond and other insurance coverage in its home office in compliance with ALA. CODE § 27-27-29(a) (1975).

Advertising – Page 21

It is recommended that the Company keep notations indicating the manner and extent of distribution and the form number of any policy advertised in compliance with Alabama Department of Insurance Regulation Number 69, Section VII, which states:

"Each insurer shall maintain at its home or principal office a complete file containing a specimen copy of every printed, published, or prepared advertisements of its blanket, franchise and group policies, hereafter disseminated in this state, with a notation indicating the manner and extent of distribution and the form number of any policy advertised."

Reinsurance – Page 23

It is recommended that the Company maintain complete and accurate records in its Alabama home office in accordance with ALA. CODE § 27-27-29(a) (1975).

It is again recommended that the Company modify its coinsurance agreement with Globe in order to receive a fair and reasonable ceding commission

Accounts and Records – Page 27

It is recommended that the Company perform periodic checks to confirm that employees' current application access is commensurate with their job responsibilities.

It is recommended that the Company not allow non-affiliates to access their database without contractual agreement.

It is also recommended that the Company describe its policies and practices with respect to protecting the confidentiality and security of nonpublic personal financial information to any non-affiliates according to the ALA. ADMIN. CODE 482-1-122.07 (2002).

It is recommended that the IS department follow Company procedures relating to employee access of the online system outlined in its Policies and Procedures regarding Security and Use of Equipment.

Bonds – Page 33

It is recommended that the Company submit and value its securities within the prescribed time limit in accordance with the requirements of the NAIC Valuation Office in accordance with Alabama Department of Insurance Regulation Number 98.

It is recommended that the company disclose the practice being used for cutoff dates in financial statements, unless December 31st is the cutoff date used for everything contained in financial statements.

Preferred stocks – Page 33

It is recommended that the Company submit all required preferred stock purchases to the NAIC Securities Valuation Office (SVO) within the prescribed time frame in compliance with Alabama Department of Insurance Regulation Number 98.

Common stocks – Page 33

It is recommended that the Company submit all required common stock purchases to the NAIC Securities Valuation Office (SVO) within the prescribed time frame in compliance with Alabama Department of Insurance Regulation Number 98.

It is recommended that the Company make the required SUB-1 and SUB-2 filings with the NAIC SVO in accordance with Alabama Department of Insurance Regulation Number 98.

It is recommended that the company non-admit any securities not valued in accordance with Alabama Department of Insurance Regulation Number 98 until such time as the Company has complied with the NAIC SVO requirements.

Real estate – Page 34

It is recommended that the Company perform appraisals on real estate properties to determine fair value in accordance with SSAP No 40, which states: "The current fair value of real estate shall be determined on a property by property basis and shall be defined as the price that a property would bring in a competitive and open market under all conditions requisite to a fair sale. If market quotes are unavailable, estimates of fair value shall be determined by an appraisal." and ALA. CODE § 27-37-7(b) (1975), which states: "Other real property held by an insurer shall not be valued at an amount in excess of fair value as determined by a recent appraisal."

It is also recommended that, until appraisals are obtained by the Company, real estate investments shall be non-admitted in accordance with SSAP No. 40, of the NAIC's Accounting Practices and Procedures Manual.

Cash and short-term investments – Page 34

It is recommended that the Company receive as collateral transferred securities having a fair value at least equal to 102 percent of the purchase price paid by the reporting entity for the securities in accordance with SSAP No. 45, section 8.a. of the NAIC's Accounting Practices and Procedure Manual.

Gas and oil tax credit receivable – Page 35

It is recommended that the Company non-admit Gas and Oil Tax Credits Receivable unless the Company has written documentation from the appropriate regulatory entities supporting the classification and admissibility of the receivable.

Electronic data processing equipment – Page 35

It is recommended that the Company classify software in accordance with the NAIC Annual Statement Instructions.

Federal and foreign income tax recoverable and interest thereon – Page 35

It is recommended that the Company's Board of Directors approve the Consolidated Tax Allocation Agreement in accordance with SSAP No. 10, paragraph 23b and the NAIC Financial Condition Examiners Handbook.

Aggregate reserve for life policies and contracts – Page 36

It is recommended that the Company maintain all records, which comprise the amounts reported in its Annual Statement, Exhibit of Life Insurance.

It is recommended that deferred annuity reserves be calculated in accordance with the Commissioners Annuity Reserve Valuation Method (CARVM) for all policies as required by ALA. CODE § 27-32-7, (1975).

It is recommended that the Alabama Department of Insurance Regulation Number 120 methodology be implemented by the Company as soon as possible so as to insure future reserves remain compliant and adequate.

It is recommended that the reserve calculation for Exhibit 8.A. (Life Insurance) be available on a seriatim basis to facilitate the verification of the calculations for future examinations.

Aggregate reserve for accident and health policies – Page 37

It is recommended that the Company maintain complete records of policy detail for amounts used to verify the aggregate reserve for accident and health contracts on page 3, line 2, column 1 of the 2001 Annual Statement accordance with the ALA CODE § 27-27-29(a) (1975).

It is recommended that the Company revise its internal administrative systems to allow the examiners to determine the portion of advance premiums that are true advance premiums, the portion that constitutes unearned premiums, and further subdivide the unearned premiums into those segments which apply to plans having additional reserves and those for which no such additional reserves are required.

Company's ability to comply with this recommendation prior to the next regularly scheduled examination, **it is further recommended** that an additional liability be established by the Company at an amount equal to the approximate difference between the gross and net unearned premiums for those plans for which no active life reserve is being held.

It is recommended that the Company monitor Schedule H and the methodologies utilized in determining these liabilities and appropriately rectify any inadequacies in these liabilities.

It is recommended that the Company maintain complete records in accordance with the ALA. CODE § 27-27-29(a), (1975).

Policy and contract claims: Life – Page 39

It is recommended that the Company establish a liability for all unpaid claims as of year-end in accordance with SSAP No. 55, Section 6b of the NAIC Accounting Practices and Procedures Manual.

It is recommended that the Company maintain complete records in accordance with ALA. CODE § 27-27-29(a) (1975).

Policy and contract claims: Accident and health – Page 40

It is recommended that the Company include the resisted claims in course of settlement for A&H claims in line 2.2 of Exhibit 11 as instructed in the NAIC Annual Statement Instructions

General expenses due or accrued – Page 40

It is recommended that the Company establish litigation accruals in accordance with the requirements of the NAIC Accounting Practices and Procedures Manual SSAP Number 5 including, but not limited to, accrual for judgments and expenses to defend litigation.

It is recommended that the Company recoup the funds paid for legal services on behalf of Torchmark Corporation.

It is recommended that the Company require outside counsel to provide invoices containing adequate descriptions concerning the nature of the charges

and which entities within the Company's Holding Company System the charges relate.

Asset valuation reserve – Page 41

It is recommended that the Company calculate its reserve objective and maximum reserve for unaffiliated private investments with the underlying characteristics of common stocks by the correct book/adjusted carrying value in its future financial filings.

SUBSEQUENT EVENTS

It was noted in the Company's June 30, 2002 Quarterly Statement that the Company wrote down bonds that were permanently impaired. The book value of bonds was reduced by \$42,680,776 and was written down to \$12.8 million as of June 30, 2002.

The bonds were reduced as noted below:

Adelphia Comm Sr Note	\$ (770,323)
Century Communications Corp Sr Note	(3,559,322)
CIA Transporte Energia Sr Note	(785,729)
Intermedia Comm Sr Discount Note	(73,881)
Tele globe Inc Note	(9,718,376)
Transportadora De Gas Sur Corp 144	(2,097,292)
Worldcom Inc Note	(14,412,031)
<u>Xerox Capital Trust 1</u>	<u>(11,263,822)</u>
Total Write down	<u><u>\$(42,680,776)</u></u>

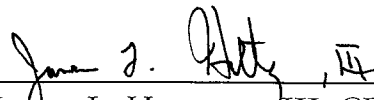
CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Rhonda B. Ball, Douglas T. Brown, Tisha R. Freeman, Anne M. Ogle, Shaun Sori, L. Daniel Watts, Examiners for the Alabama Department of Insurance, and John A. MacBain, FSA, MAAA, Matthew S. McAllister, FSA, MAAA, Robert Crompton, FSA, MAAA, John Condo, FSA, MAAA, and Susan Petersen, employees of the firm Actuarial Resources Corporation, representing the Alabama Department of Insurance, participated in this examination of Liberty National Life Insurance Company.

Respectfully submitted,



James L. Hattaway, III, CFE
Examiner-in-charge
State of Alabama Department of Insurance
Southeastern Zone, NAIC

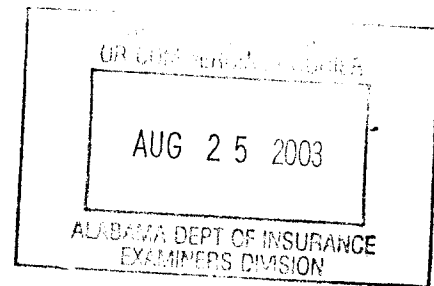
Liberty National
Life Insurance Company
P.O. Box 2612
Birmingham, Alabama 35202
205 325 2864
205 325 2021 Fax

James L. Mayton, Jr.
Vice President and Controller



August 19, 2003

Mr. Richard L. Ford
Chief Examiner
State of Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, AL 36130-3351



RE: Response to the 2001 Examination Report

Dear Mr. Ford:

Starting with the second quarter 2003, the company is no longer netting affiliated receivables and payables.

The attached memorandum from Mr. Brant Beene outlines in detail the compliance form they will use for advertising.

Mr. John Livingston has amended the Globe Life and Accident coinsurance agreement and is in the process of having it signed (see his e-mail attached). Ms. Carol McCoy has outlined in her July 31 memorandum the procedures to be used to safeguard the outstanding letter of credit.

Mr. Duncan Hamilton has outlined in his August 13 memorandum a response to the holding company and organizational chart recommendations. He also addresses the real estate and general expense questions.

On August 15, Mr. Jeff Mingori e-mailed Mr. Joe Simonetti stating that he will provide copies of all corporate insurance policies to be maintained in the home office.

Mr. Michael Klyce, Vice President and Treasurer for the company, has provided copies of his letter to SouthTrust Bank and Compass Bank which he has requested all repurchase agreements be collateralized at 102%.

Starting with the second quarter 2003, the nonadmitting of software is included on the electronic data processing equipment line in the statement.

Mr. Chou has written the following attached responses to the reserves and related items.

Sincerely,

A handwritten signature in black ink, reading "James L. Mayton, Jr." in a cursive style.
James L. Mayton, Jr.

JLM,Jr./kc



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

July 17, 2003

Mr. James L. Mayton
Vice President
Liberty National Life Insurance Company
P.O. Box 2612
Birmingham, AL 35202

RE: Response to the 2001 Exam Report Recommendations

Dear Mr. Mayton,

The Department has reviewed the responses submitted by your company regarding the comments and recommendations made during the financial examination as of December 31, 2001. Please review each item listed below and respond accordingly.

- **Netting of affiliated receivables**

The recommendation was for the company to stop the netting of affiliated receivables and payables. The response provided did not indicate your willingness to comply with this recommendation. Unfortunately, Departmental Regulation 60 and SSAP 64 of the NAIC's Accounting Practices and Procedures Manual does not permit you to continue with this practice. If the company disagreed with the recommendation regarding this issue an objection should have been filed and a hearing requested. Since no such action was taken a response indicating your compliance must be submitted.

- **Advertising**

The form attached to your response must include the following information for every advertisement or mailer attached to policy premium notices. These forms must also be made available for review by the examiners in future examinations. Otherwise, the intended plan of action will not meet the requirements of the recommendation.

1. Manner of distribution.
2. Extent of distribution.
3. Form number of policies advertised.

- **Reinsurance**

The examination recommendation called for the modification of the Globe Life and Accident coinsurance agreement to meet the fair and reasonable as well as the arms length requirements. The response provided appeared to indicate your unwillingness to make the

necessary modifications due to what you deemed a lack of materiality. As noted earlier, Departmental Regulation 60 does not permit you to continue to operate under this agreement without making the recommended modifications. If the company felt the recommendation was immaterial and did not intend to comply then they should have requested a hearing. At this juncture, a response must be provided detailing the steps that will be taken to comply with the recommendation.

The second issue regarding reinsurance related to the company's inability to provide a copy of a letter of credit. While this issue was resolved when the company obtained a replacement during the course of the examination a response still needs to be provided indicating what steps have been taken to ensure that this type of situation does not occur in the future.

- **Holding Company and Organizational Chart**

The response provided by Ms. McCoy regarding these recommendations failed to explain what steps the company will take to comply with each of the recommendations.

- **Fidelity Bonds and Other Insurance**

The recommendation was that the company maintain copies of all company insurance policies, not obtain them when requested as detailed in the response. Please provide another response indicating the steps that will be taken to comply with this recommendation as required by Departmental Regulation 60.

- **Cash and Short-term Investments**

The recommendation called for the collateralization of repurchase agreements at 102%. The response provided by Mike Klyce failed to demonstrate any steps that had been taken to comply with this recommendation and in fact questioned whether or not the company should comply. At this time the company must comply with the recommendation. The time for questioning or disputing a recommendation has long since passed. A response must be submitted indicating what steps the company will take to ensure that their repurchase agreements are collateralized at 102% as required by SSAP 45 of the NAIC's Accounting Practices and Procedures Manual.

- **Real Estate**

The response provided relating to the appraisal report obtained on the 30.76± acres in Liberty Park raises two additional issues that must be addressed. Please review each and respond accordingly.

1. Has the company recouped the difference between the appraised value and the purchase price and if not, how does this transaction meet the "fair and reasonable" requirements of the Holding Company Act?
2. How has the company accounted for the difference between the carrying value and the appraised value?

- **Electronic Data Processing Equipment**

A response to the examination recommendation relating to the classification of software in accordance with the NAIC Annual Statement Instructions could not be located. Please submit a response as required.

- **Reserves**

The exam report contained a number of recommendations regarding the company's reserves. The response provided by Mr. Hung Chou failed to demonstrate the company's compliance with these examination recommendations. The use of cash surrender values instead of

CARVM does not comply with the examination recommendation. The recommendation was for the company to use the CARVM and Mr. Chou needs to provide a response indicating what steps the company has or will take to comply. Mr. Chou must also provide detailed responses for the other reserve recommendations. A simple statement that the company intends to comply is not sufficient.

- **General Expenses Due or Accrued**

The exam report contained three recommendations regarding general expenses.

1. Litigation accruals.
2. Recoupment of legal fees paid on behalf of affiliates.
3. Adequate invoices containing sufficient information to enable a reconciliation of the charges incurred by the respective entities within the holding company system.

The response provided by Mr. McWhorter failed to address any of the above in any detail. In fact, the response provided continues to argue the issue regarding litigation accruals. A response must be submitted which clearly details what steps have been taken to comply with the above recommendations.

Responses to the above items should be submitted within ten (10) days pursuant to Departmental Regulation 118. Should you have any questions please contact Sean Duke, Financial Analyst, at (334) 241-4165 or sduke@insurance.state.al.us.

Sincerely,



Richard L. Ford
Chief Examiner

RLF/swd

cc: Jim Hattaway

August 7, 2003



Mr. James L. Mayton
Vice President
Liberty National Life

cc: Hubert Morrison, Vice President, Marketing Services

Jimmy:

This note is in response to the State of Alabama Department of Insurance exam report, dated July 17, 2003, item two, under the heading 'Advertising.'

I have enclosed the current compliance forms which we use to identify, track and file advertising material. Also included is a copy of each of the premium notice mailers which advertise an insurance product. As requested, the form shows:

1. Manner of distribution
2. Extent of distribution
3. Form number of policies advertised

Each of the premium notice mailers has now been revised to show policy form numbers when a product is advertised. If there is any other information you need, please call me at ext. 2696.

A handwritten signature in black ink that reads "Brant Beene".

Brant Beene
2nd Vice President
Liberty National Life
205 325-2696
bbeene@libnat.com



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
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WALTER A. BELL
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MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

July 17, 2003

Mr. James L. Mayton
Vice President
Liberty National Life Insurance Company
P.O. Box 2612
Birmingham, AL 35202

RE: Response to the 2001 Exam Report Recommendations

Dear Mr. Mayton,

The Department has reviewed the responses submitted by your company regarding the comments and recommendations made during the financial examination as of December 31, 2001. Please review each item listed below and respond accordingly.

Major • **Netting of affiliated receivables**

The recommendation was for the company to stop the netting of affiliated receivables and payables. The response provided did not indicate your willingness to comply with this recommendation. Unfortunately, Departmental Regulation 60 and SSAP 64 of the NAIC's Accounting Practices and Procedures Manual does not permit you to continue with this practice. If the company disagreed with the recommendation regarding this issue an objection should have been filed and a hearing requested. Since no such action was taken a response indicating your compliance must be submitted.

Hubert Morrison • **Advertising**

The form attached to your response must include the following information for every advertisement or mailer attached to policy premium notices. These forms must also be made available for review by the examiners in future examinations. Otherwise, the intended plan of action will not meet the requirements of the recommendation.

- Bellevue* ✓
1. Manner of distribution.
 2. Extent of distribution.
 3. Form number of policies advertised.

my meubster • **Reinsurance**

The examination recommendation called for the modification of the Globe Life and Accident coinsurance agreement to meet the fair and reasonable as well as the arms length requirements. The response provided appeared to indicate your unwillingness to make the

my Bill

Advertising Compliance Form

Advertising Form # R-3394-8 ed 10-98

Medium: ☐ television ☐ newspaper ☐ radio ☐ outdoor ☐ internet

☐ display ☐ banner or sign ☐ sales brochure ☐ letter

☒ other premium notice mailer

Headline "Give Your Kids a Great Start In Life"

Edition Date: 10-98

Start Date: _____

Discontinue Date: _____

Form # of policy, if advertised CR 6349 and 6350

Manner of Distribution: ☐ email ☒ mail ☐ other _____
☐ district shipment

Extent of Distribution: ☒ AL ☒ FL ☒ GA ☒ LA ☒ MS ☒ SC ☒ TN

Notes: to all customers paying by premium notice
(about 250,000)



*Life Insurance for your children
or grandchildren now can help them on
their way to a secure financial future.*

GIVE YOUR KIDS A GREAT START IN LIFE

Keep rates low. Make sure your child can get coverage later.

- 1 in 5 children are uninsurable because of health by age 25.*
- Buying life insurance for your child now can guarantee insurability later, even if there are health problems. We offer an Option to Purchase Additional Insurance which could be very important to your child's financial future.
- Rates are lower at younger ages. Lock them in for life.

Liberty National
Life Insurance Company

*According to the American Council of Life Insurance - 1996 Fact Book

Get It Started Today!

I'M INTERESTED IN LIFE INSURANCE FOR MY CHILD

District _____ Agency _____ Client # _____
(To be completed by Liberty National)

Give your child
a great start
in life!

Liberty National
Life Insurance Company

(Complete This Card Today and Return It
With Your Premium Payment)

<input type="checkbox"/> Yes, I want more information about Liberty National's life insurance plan for my child or grandchild. No obligation.	Child's Name _____ Date of Birth ____ / ____ / ____ Sex: ____ M ____ Parents' / Grandparents' Names _____ Address _____ City _____ State _____ Zip _____ Phone (____) _____ Best time to call _____ am _____ pm
--	--

Advertising Compliance Form

Advertising Form # R-3394-A ed 10-98

Medium: ☐ television ☐ newspaper ☐ radio ☐ outdoor ☐ internet
☐ display ☐ banner or sign ☐ sales brochure ☐ letter
☒ other Premium notice mailer

Headline "ACCIDENTS ARE THE LEADING CAUSE --"

Edition Date: 10-98

Start Date: 10-98

Discontinue Date: _____

Form # of policy, if advertised ACA 7027 ACB 7063

Manner of Distribution: ☐ email ☒ mail ☐ other _____
☐ district shipment

Extent of Distribution: ☒ AL ☒ FL ☒ GA ☒ LA ☒ MS ☒ SC ☒ TN

Notes: 10 existing customers paying by premium notice
(about 250,000)

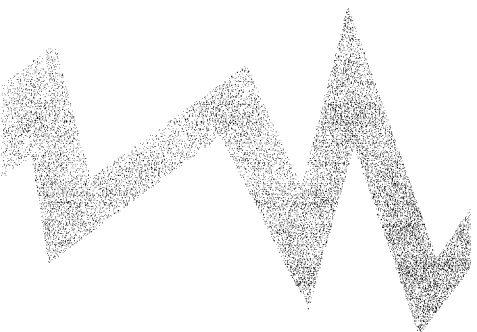
Accidents

are the leading cause of death among those 1 to 35 years old & the fifth leading cause overall.

—National Safety Council's *Accident Facts-1997*.

The top causes of unintentional death are:

1. Motor Vehicles
2. Falls
3. Poisoning
4. Drowning
5. Fires, Burns
6. Suffocation
7. Firearms
8. Other



Liberty National's Accident Policy

Pays \$150,000

For death by Travel Accident*

Pays \$75,000

For death by Auto Accident*

Pays \$50,000

For Accidental Death*

*See policy for definitions

Get our affordable Accident Coverage Today!

COMPLETE THIS CARD TODAY AND RETURN
IT WITH YOUR PREMIUM PAYMENT.

Liberty National
Life Insurance Company

District _____ Agency _____ Client # _____
(To be completed by Liberty National)

Name _____

Address _____

City _____ State _____ Zip _____

Telephone () _____

Best time to call _____ AM _____ PM

Date of birth _____ Sex _____

R-3394-A ed 10-98 "Accident Coverage" refers to Liberty National Life policy form numbers ACA 7027 and ACB 7063.

Advertising Compliance Form

Advertising Form # R-3394-E ed 10-99

Medium: ☐ television ☐ newspaper ☐ radio ☐ outdoor ☐ internet
☐ display ☐ banner or sign ☐ sales brochure ☐ letter
☒ other mail card

Headline "ACCIDENTS HAPPEN"
ACCIDENT PROTECTOR PLUS

Edition Date: 10-99

Start Date: 10-99

Discontinue Date: _____

Form # of policy, if advertised 7062, 7062S, 7062F

Manner of Distribution: ☐ email ☒ mail ☒ other Premium Notice
☐ district shipment stuffer

Extent of Distribution: ☒ AL ☒ FL ☒ GA ☒ LA ☒ MS ☒ SC ☒ TN

Notes: customers who pay by premium notice
(about 250,000)

The Accident Protector Plus

FOR

- Individuals
- Single Parents & Children
- Husband, Wife & Children

Includes Benefits For:

- Accidental Death
- Dismemberment
- Daily Hospital Confinement
- ICU Confinement
- Emergency Treatment
- Other specified injuries
ALSO:
- On and off the job protection
- Guaranteed Renewable 'til age 65
- Benefits paid directly to you
- Pays in addition to
Workman's Comp

District _____ Agency _____ Client # _____
(To be completed by Liberty National)

**COMPLETE THIS CARD TODAY AND
RETURN IT WITH YOUR PREMIUM PAYMENT.**

Name _____

Address _____

City _____ State _____ Zip _____

Telephone (_____) _____

Best time to call _____ AM _____ PM

Date of birth _____ Sex _____

Liberty National
Life Insurance Company

R-3394-E ed 10-99 "Accident Protector Plus" refers to Liberty National Life policy form numbers 7062, 7062S, 7062F.

Accidents Happen
Anytime,
Anywhere.

Get Liberty National's
Accident Protector Plus

An accidental death occurs
every six minutes in the U.S.

- Accidents are the leading cause of death for individuals 1 to 38 years of age.
- Accidental death and injury cost victims in the U.S. over \$450 billion each year.
- Over 90,000 are killed each year by accidents.

*Source: National Safety Council, *Accident Facts*, 1998 ed.

Advertising Compliance Form

Advertising Form # R-3394-3

Medium: ☐ television ☐ newspaper ☐ radio ☐ outdoor ☐ internet

☐ display ☐ banner or sign ☐ sales brochure ☐ letter

☒ other premium notice mailer

Headline "Who Will Have To Pay Your Final Expenses?"

Edition Date: 10-96

Start Date: 10-96

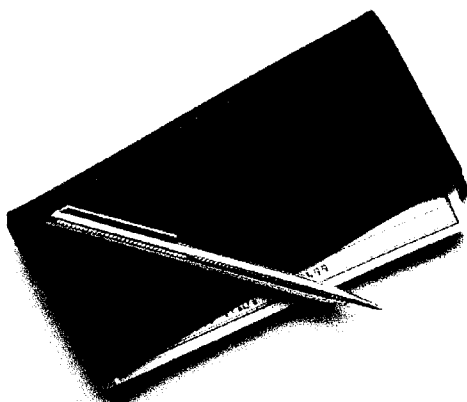
Discontinue Date: _____

Form # of policy, if advertised ALS, 8039, 8037

Manner of Distribution: ☐ email ☒ mail ☐ other _____
☐ district shipment

Extent of Distribution: ☒ AL ☒ FL ☒ GA ☒ LA ☒ MS ☒ SC ☒ TN

Notes: sent to 250,000 (est) premium
notice customers



Who Will Have To Pay Your Final Expenses?

- WILL IT BE YOUR SPOUSE? YOUR CHILDREN?
- The average cost of a funeral is about \$4,500 according to a survey by the National Funeral Directors Association
- Many families have little or no savings to pay for final expenses.

Social Security is just not enough.

- No more than \$255 in death benefit will be provided by Social Security.
- Liberty National has a life insurance plan to help pay for final expenses.

Let's talk. There's no obligation.

Just complete and return this card to us with your premium payment.

For more about Final Expense Coverage...

COMPLETE THIS CARD TODAY
AND RETURN IT WITH YOUR
PREMIUM PAYMENT.



District _____ Agency _____ Client # _____
(To be completed by Liberty National)

Name _____

Address _____

City _____ State _____ Zip _____

Telephone (_____) _____

Best time to call _____ AM _____ PM

Date of birth _____ Sex _____

R-33394-3 ed 10-98 "Final Expense" refers to Liberty National Life policy form numbers ALS, 8039 and 8037

Advertising Compliance Form

Advertising Form # R-3394-4 ed 7-01

Medium: ☐ television ☐ newspaper ☐ radio ☐ outdoor ☐ internet
☐ display ☐ banner or sign ☐ sales brochure ☐ letter
☒ other premium notice mailer

Headline "Did you know ---" (cancer)

Edition Date: 7-01

Start Date: 7-01

Discontinue Date: ~~7-01~~

Form # of policy, if advertised 5KA, 5KB, 5KC, 5KD, 5KE, and 5KF

Manner of Distribution: ☐ email ☒ mail ☐ other _____
☐ district shipment

Extent of Distribution: ☒ AL ☒ FL ☒ GA ☒ LA ☒ MS ☒ SC ☒ TN

Notes: sent to 250,000 premium notice customers

For More About Cancer Coverage

Complete this card today and return it
with the envelop provided.



Yes! I'd like more information about
cancer insurance.

Name _____

Address _____

City _____ State _____ Zip _____

Telephone () _____

Best time to call _____ AM _____ PM

Date of birth _____ Sex _____

2001 Third Avenue South
Birmingham, AL 35233

Liberty National
Life Insurance Company

R-3394-4 ed. 7-01

"Cancer Coverage" refers to Liberty National Life policy form numbers 5KA, 5KB, 5KC, 5KD, 5KE and 5KF.

* Did You Know...?

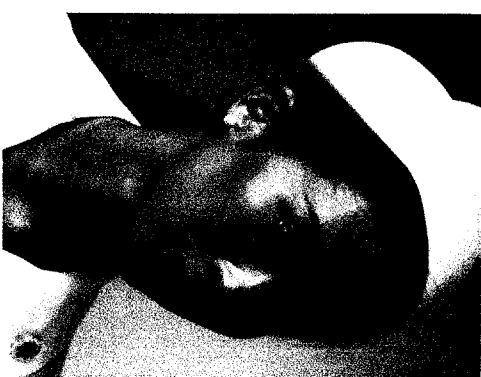
- One in three people now living will eventually have cancer?
- Estimated cancer costs were over \$100 billion last year?
- Every 58 seconds someone dies of cancer?

** Cancer Facts & Figures - 2001;
American Cancer Society, Atlanta*

Liberty National Life Has
A Policy Against Cancer.

Do You?

Let's talk. We can help and there's no obligation. Just complete and mail this card to us in the envelope provided.



Advertising Compliance Form

Advertising Form # R-3394-6 ed 10-98

Medium: ☐ television ☐ newspaper ☐ radio ☐ outdoor ☐ internet

☐ display ☐ banner or sign ☐ sales brochure ☐ letter

☒ other premium notice mailer

Headline "Do You Have Enough Life Insurance ---"

Edition Date: 10-98

Start Date: 10-98

Discontinue Date: _____

Form # of policy, if advertised 8033, 8039, 9007, 8037, 9409, 94095

Manner of Distribution: ☐ email ☒ mail ☐ other _____

☐ district shipment

Extent of Distribution: ☒ AL ☒ FL ☒ GA ☒ LA ☒ MS ☒ SC ☒ TN

Notes: sent to 250,000 (est) premium
notice customers



DO YOU HAVE ENOUGH LIFE INSURANCE TO COVER THESE THREE BASIC NEEDS?

1. FINAL EXPENSES

One of the first financial burdens your family will encounter is final expenses. This includes the costs for the funeral, cemetery lot and marker, plus final medical bills. Do you have at least \$10,000 to cover final expenses?

2. MORTGAGE OR RENT

Where would you want your family to live if you die? How easy would it be for them to make the payments without you? What would it cost to pay your mortgage or make the rent payments for your family?

3. MONTHLY INCOME

When you die your income dies, but your family's need for income continues. Replacing your income permanently would be too expensive. But you can help your family by providing an income to them during their adjustment period. How many years would you like to provide an income for your family? How much would you like to provide each month? \$500 per month for 5 years? More?

Let's talk. There's no obligation. Just complete and return this card to us with your premium payment.

FOR MORE ABOUT BASIC NEEDS COVERAGE...

*Complete this card today
and return it with your
premium payment.*

☐ **Yes!** I'd like more information
about life insurance to cover:

- ☐ **FINAL EXPENSES**
- ☐ **MORTGAGE OR RENT**
- ☐ **MONTHLY INCOME**

District Agency Client #
(To be completed by Liberty National)

Name _____
Address _____
City _____ State _____ Zip _____
Telephone () _____
Best time to call _____ AM _____ PM
Date of birth _____ Sex _____

Liberty National
Life Insurance Company

R-3394-6 ed. 10-98 "Basic Needs Coverage" refers to Liberty National Life policy form numbers 8033, 8039, 9007, 8037, 9409, 9409S.

MAYTON, JAMES

From: LIVINGSTON, JOHN H.
Sent: Monday, August 18, 2003 11:26 AM
To: MAYTON, JAMES; SIMONETTI, JOE
Subject: Contract amendments



AMENDMENT TO
COINSURANCE AGREE...



THIRD AMENDMENT
TO ADMINISTRAT...

have them signed.

Here are drafts of the two agreements we discussed last week. If they look o.k. I'll

Torchmark Corporation
2001 Third Avenue, South
Birmingham, Alabama 35233-2186
205 325 4243
205 325 4198 (Fax)



Carol A. McCoy
Vice President,
Associate Counsel and Secretary

July 31, 2003

Memorandum to Jimmy Mayton

Re: Richard Ford letter of July 17, 2003

Response to Page 2; Paragraph 2:

All letters of credit, amendments and extensions thereof for the benefit of Liberty National Life are now held by the Torchmark Treasurer's office in accordance with that office's procedures for materials maintained in the Company vault or investment department safe. These documents will only be allowed to be examined in the presence of the Company Treasurer or a Legal Department representative. Only copies of these documents will be allowed outside the vault or investment department safe.


Carol A. McCoy

CAM:ts

CC: Duncan Hamilton
Mike Klyce

MEMO

To: Jimmy Mayton

From: Duncan Hamilton

Date: August 13, 2003

Re: Richard Ford Letter of July 17, 2003 regarding Response to the 2001 Exam Report Recommendations

Response to Holding Company and Organizational Chart on page 2 of the referenced letter

Pursuant to the recommendations of the examiners, the Company will notify the Commissioner in writing at least 30 days prior to entering into transactions that are 3% of the insurers admitted assets as of December 31 of the preceding year. The Company will disclose material purchases, sales, or exchanges of loans, securities, real estate, mortgage loans or other investments between affiliated companies. The company's transactions with related parties will be evaluated by management and non-admitted if they do not constitute arm's length transactions. The Company will maintain evidence that transactions with affiliates are fair and reasonable. The Company will non-admit investment transactions that are not interest bearing or interest accruing or dividend or income paying. The Company will properly disclose the correct parties associated with transactions in its Annual Statement - Schedule A.

Real Estate, page 2 of the referenced letter

1. Has the Company recouped the difference between the appraised value and the purchase price and if not how does this transaction meet the “fair and reasonable” requirements of the Holding Company Act?

2. How has the Company accounted for the difference between the carrying value and the appraised value?

Please see the attached excerpt from the Company’s Annual Statement as of December 31, 2002. Please note that the subject property was valued at \$2,200,680. Pursuant to the recommendation of the examiners and the requirements of AL CODE § 27-37-7(b) (1975) , the Company obtained an appraisal dated February 25, 2003 (Excerpt of Appraisal Report is attached). As the Examination Report noted, SSAP No. 40, paragraphs 11 and 12 effectively require a recent appraisal in order to obtain the fair value of the real estate as an admitted asset. While the appraisal indicated a value of \$5,360,000, the Company wrote down the value of the property to \$2,200,000, 41% of the appraisal value, thereby assuring that the real estate was not valued at an amount greater than the fair value as determined by a recent appraisal in compliance with the aforementioned SSAP No. 40 and AL CODE § 27-37-7(b) (1975).

General Expenses Due or Accrued on page 3 of the referenced letter

1. Litigation Accruals.

Each quarter, the Company reviews pending litigation and any settlements concluded during the quarter. Based upon that comprehensive review, the

Company makes a determination as to whether litigation accruals should be adjusted. As a part of this review, the Company also takes into account the miscellaneous reserve above and beyond the accrual established for specific litigation and the accrual estimate which utilizes a weighted average methodology for outstanding cases.

2. Recoupment of legal fees paid on behalf of affiliates.

The report noted that the Company was inappropriately charged \$121,813 for legal fees that were incurred by Torchmark Corporation. That entry has been corrected and the Company has recouped those legal fees.

3. Adequate invoices containing sufficient information to enable a reconciliation of the charges incurred by the respective entities within the holding company system.

The Company has reiterated the necessity that outside counsel provide invoices containing sufficient information to enable a reconciliation of the charges incurred by the respective entities within the holding company system and outside counsel have complied with that directive.

ANNUAL STATEMENT FOR THE YEAR 2002 OF THE LIBERTY NATIONAL LIFE INSURANCE COMPANY

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds		
1.1 Bonds exempt from U.S. tax	(a) 10,918,684	11,171,856
1.2 Other bonds (unaffiliated)	(a)	
1.3 Bonds of affiliates	(a) 213,506,456	216,329,787
2.1 Preferred stocks (unaffiliated)	(a)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	(b) 8,013,265	8,013,265
2.21 Common stocks of affiliates		
3. Mortgage loans	15,222,308	15,222,308
4. Real estate	(c) 7,615,850	7,422,393
5. Contract loans	(d) 2,845,433	2,845,433
6. Cash/short-term investments	12,025,532	12,484,790
7. Derivative instruments	(e) 605,149	604,720
8. Other invested assets	(f)	
9. Aggregate write-ins for investment income	1,074,140	1,111,445
10. Total gross investment income	627,948	627,889
11. Investment expenses	272,454,765	275,833,886
12. Investment taxes, licenses and fees, excluding federal income taxes		(g) 8,681,707
13. Interest expense		(g) 356,440
14. Depreciation on real estate and other invested assets		(h) 142,449
15. Aggregate write-ins for deductions from investment income		(i) 1,189,013
16. Total (Lines 11 through 15)		
17. Net Investment Income - (Line 10 minus Line 16)		10,369,609
		265,464,277
DETAILS OF WRITE-INS		
0901. Sundry		
0902.	627,948	627,889
0903.		
0998. Summary of remaining write-ins for Line 9 from overflow page		
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	627,948	627,889
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page		
1599. Total (Lines 1501 through 1503 plus 1598) (Line 15, above)		

(a) Includes \$ 5,195,407 accrual of discount less \$ 7,423,331 amortization of premium and less \$ 13,788,941 paid for accrued interest on purchases.
 (b) Includes \$ accrual of discount less \$ amortization of premium and less \$ paid for accrued dividends on purchases.
 (c) Includes \$ accrual of discount less \$ amortization of premium and less \$ paid for accrued interest on purchases.
 (d) Includes \$ 2,081,847 for company's occupancy of its own buildings; and excludes \$ interest on encumbrances.
 (e) Includes \$ accrual of discount less \$ amortization of premium and less \$ paid for accrued interest on purchases.
 (f) Includes \$ accrual of discount less \$ amortization of premium.
 (g) Includes \$ investment expenses and \$ investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
 (h) Includes \$ interest on surplus notes and \$ interest on capital notes.
 (i) Includes \$ 1,189,013 depreciation on real estate and \$ depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Increases (Decreases) by Adjustment	4 Net Gain (Loss) from Change in Difference Between Basis Book/ Adjusted Carrying and Admitted Values	5 Total
1. U.S. Government bonds	596,922				596,922
1.1 Bonds exempt from U.S. tax					
1.2 Other bonds (unaffiliated)	41,894,738	(46,129,444)	(389,000)		(4,623,706)
1.3 Bonds of affiliates					
2.1 Preferred stocks (unaffiliated)	13,035				13,035
2.11 Preferred stocks of affiliates					
2.2 Common stocks (unaffiliated)			17,818		17,818
2.21 Common stocks of affiliates			15,251,259		15,251,259
3. Mortgage loans					
4. Real estate	(15,302)	(3,638,000)			(3,653,302)
5. Contract loans				(113,969)	(113,969)
6. Cash/Short-term investments					
7. Derivative instruments					
8. Other invested assets			11,203		11,203
9. Aggregate write-ins for capital gains (losses)		(737,000)			(737,000)
10. Total capital gains (losses)	42,489,393	(50,504,444)	14,891,280	(113,969)	6,762,260
DETAILS OF WRITE-INS					
0901. Gas and oil tax credit receivable		(737,000)			(737,000)
0902.					
0903.					
0998. Summary of remaining write-ins for Line 9 from overflow page					
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)		(737,000)			(737,000)

ANNUAL STATEMENT FOR THE YEAR 2002 OF THE LIBERTY NATIONAL LIFE INSURANCE COMPANY

SCHEDULE A - PART 1

Showing all Real Estate OWNED December 31 of Current Year

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Description of Property	City	State	Date Acquired	Date of Last Appraisal	Actual Cost	Amount of Encumbrances	Book/Adjusted Carrying Value Less Encumbrances	Fair Value Less Encumbrances	Increase (Decrease) by Adjustment	Increase (Decrease) by Foreign Exchange Adjustment	Amounts Received During Year	Expended for Additions, Permanent Improvements and Changes in Encumbrances During Year	Gross Income Earned Less Interest Incurred on Encumbrances	Taxes, Repairs and Expenses Incurred
McComb District Office (68467)	McComb	MS 39448	01/01/1979		191,199		94,927		(1,481)			2,420	18,679	14,198
314 West Avenue					289,099		135,162		(8,299)			2,623	22,042	14,783
Greenwood District Office (65459)	Greenwood	MS 39830	01/01/1981		1,944,473		1,021,764		(68,371)			95,425	181,815	119,484
1317 Highway 82 East														
McComb District Office (71683)	Chattanooga	TN 37411	01/01/1969		165,620		92,880		(3,288)				20,504	17,216
4700 Brainerd Street														
Tullahoma District Office (80103)	Tullahoma	TN 37380	01/01/1973		180,000		88,763		(8,890)				18,712	9,822
319 South Jackson Street														
Oak Ridge District Office (82261)	Oak Ridge	TN 37830	01/01/1974		185,923		94,674		(7,454)				20,973	13,519
129 E. Division Road														
Lawrenceburg District Office (63958)	Lawrenceburg	TN 38464	01/01/1977		276,556		120,559		(14,384)				27,022	12,638
422 Springwood														
2226 E. Stone Drive	Kingsport	TN 37660	01/01/1978		296,541		148,891		(9,282)			4,065	23,426	14,144
1069999 -					1,105,842		515,767		(43,295)			4,065	110,637	67,359
0299999 - Property occupied by the reporting entity - Administrative					37,416,993		11,867,719		(985,140)			349,926	2,081,854	1,692,066
0299999 - Total property occupied by the reporting entity					37,416,993		11,867,719		(985,140)			349,926	2,081,854	1,692,066
BSFL Caselt Factory (95525)	Birmingham	AL 35201	01/01/1949		583,423		53,925		(1,350)			21,000	30,000	765,434
Federal Home (10007)					275,195		47,010						28,740	101,419
2116 81th Avenue South														
Home Office Investment Property (93558)	Birmingham	AL 35202	01/01/1951		583,795		64,021		(197,889)			41,513	674,480	765,434
301 South 20th Street					4,715,727		2,378,332		(199,039)			68,513	763,586	765,434
0399999 - Properties held for the production of income					6,598,140		2,543,292		(3,638,000)			88,513	763,586	765,434
0399999 - Total property held for the production of income					6,598,140		2,543,292		(3,638,000)			88,513	763,586	765,434
Liberty Park Investment Property (98513)	Birmingham	AL 35203	01/01/1998	02/29/2003	2,200,680		2,200,680		(3,638,000)					101,419
0399999 - Properties held for sale					2,200,680		2,200,680		(3,638,000)					101,419
9999999 Totals					46,215,873		16,611,191		(4,822,179)			418,439	2,845,440	2,559,519

REAL PROPERTY SOLUTIONS, INC.

PROFESSIONAL REAL ESTATE ANALYSIS, VALUATION, COUNSELING & Brokerage



APPRAISAL REPORT (COMPLETE, SUMMARY REPORT)

PROPERTY

30.76± Acres Vacant Land
Liberty Park
Vestavia Hills, Jefferson County, AL
RPS FILE: 2003-008

FOR

Mr. Duncan Hamilton
Liberty National Life Insurance Company
P. O. Box 2612
Birmingham, Alabama 35202

EFFECTIVE DATE

February 18, 2003

REPORT DATE

February 26, 2003

Six Office Park Circle, Suite 120
Birmingham, Alabama 35223
(205) 879-4529
<http://www.rpsol.net>

REAL ESTATE SOLUTIONS, INC.

Professional Real Estate Analysis, Valuation, Counseling, & Brokerage

Street Address

6 Office Park Circle, Suite 120
Birmingham, Alabama 35223

Mailing Address

P. O. Box 531092
Birmingham, Alabama 35253

Phone: 205-879-4529

Fax: 205-879-4530

e-mail: brps@rpsol.net

Internet URL: <http://www.rpsol.net>



T. Julian Skinner, III, MAI, CRE*

Joseph R. Skinner*

M. List Underwood

**Alabama Certified General Real Property Appraisers*

February 18, 2002

Mr. Duncan Hamilton
Liberty National Life Insurance Company

P. O. Box 2612
Birmingham, Alabama 35202

RE: 30.76± Acres Vacant Land
Liberty Park
Vestavia Hills, Jefferson County, AL
RPS FILE: 2003-008

Mr. Hamilton,

In accordance with your request, we have made an appraisal of the above-referenced property for the purpose of estimating the market value of the leased fee and fee simple interests in the subject. The effective date of the valuation is February 18, 2002, the last date of physical inspection. It is the writers' understanding that the function of the appraisal is to assist with internal decision-making concerning the possible purchase of a partner's interest in the subject property. The property was valued based on the Market Value definition reproduced in this report. Under Standards Rule 2-2 of the Uniform Standards of Professional Appraisal Practice of the Appraisal Standards Board, this report is classified as a *Summary Appraisal Report*.

As stated in the Appraiser's Certification within the body of the report, the compensation for this appraisal is not contingent upon any action or event resulting from the analysis, opinions, or conclusions in, or the use of the enclosed report.

The reader's attention is directed to the general Assumptions and Limiting Conditions contained within the attached report. In addition, the special Assumptions and Limiting Conditions are detailed as follows:

1. The writer's were provided with a tax parcel of the subject property. This map indicates a site size of 30.76± acres of land area. The survey was prepared by Walter Schoel Engineering Company and is dated February 2003. If any current survey indicates a different size, than changes may be made accordingly.
2. No environmental studies were provided to the writers. It is assumed that there are no environmentally hazardous conditions on the property. Should later information reveal that this is not the case, the value conclusions reached herein would need to be amended accordingly. **The readers' attention is directed to general Assumptions and Limiting Conditions 13-15, which relate to environmental hazards.**

3. No legal description was provided to the writers.
4. It was the writer's instruction to value the property as a whole even though the property is divided into lots and at one point has a dedicated road that divides a part of the property. We were to value the property as if it would be sold to one party as a whole.
5. **The purpose is to develop a value in accordance with the requirements of the State of Alabama Insurance Department as is for their internal use.**

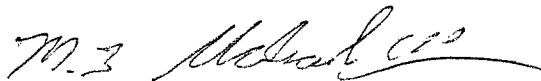
This appraisal was developed as a "complete" appraisal in accordance with Standards Rule 1 of the Uniform Standards of Professional Appraisal Practice (USPAP). This appraisal is being reported as a "summary" report in accordance with Standard Rule 2-2(b) of USPAP. This assignment was made subject to regulations of the State of Alabama Real Estate Appraisers Board. The undersigned state certified appraisers have met the requirements of the board that allow this report to be regarded as a "certified appraisal."

We trust you will find the attached appraisal report satisfactory; however, if any further assistance is needed, please notify us accordingly.

Very truly yours,
REAL PROPERTY SOLUTIONS, INC.



T. Julian Skinner, III, MAI, CRE
Alabama Certified General Real Property Appraiser #G00070



M. List Underwood III
Alabama Trainee Real Property Appraiser #T01097

MLU/TJS

SUMMARY OF FACTS AND CONCLUSIONS

PROPERTY IDENTIFICATION: 30.76± Acres Vacant Land
Liberty Park
Vestavia Hills, Jefferson County, AL
RPS FILE: 2003-008

CLIENT: Mr. Duncan Hamilton
Liberty National Life Insurance Company
P. O. Box 2612
Birmingham, Alabama 35202

PROPERTY OWNER: Liberty National Life Insurance Company

LAND SIZE: 30.76± Acres or 1,339,992± Square Feet

ESTIMATED MARKET VALUE: **\$5,360,000**

ESTIMATED MARKETING PERIOD: 12 to 24 months

ESTIMATED EXPOSURE TIME: 12 to 24 Months

DATE OF VALUATION: February 18, 2003

DATE OF REPORT: February 26, 2003

APPRAISERS: T. Julian Skinner III
Alabama Certified General Real Property Appraiser #G00077
M. List Underwood III
Alabama Certified General Real Property Appraiser #T01097

MAYTON, JAMES

From: JMINGORI@torchmarkcorp.com
Sent: Friday, August 15, 2003 3:50 PM
To: jsimonetti@libnat.com
Cc: jmayton@libnat.com
Subject: Alabama Audit

In order to comply with the audit I will send you copies of all corporate insurance policies. Thanks!

This message contains information which is privileged and confidential and is solely for the use of the intended recipient. If you are not the intended recipient, be aware that any review, disclosure, copying, distribution, or use of the contents of this message is strictly prohibited. If you have received this in error, please destroy it immediately and notify us at PrivacyAct@torchmarkcorp.com.

Torchmark Corporation
2001 Third Avenue, South
Birmingham, Alabama 35233-2186
205 325 2051



Michael J. Klyce, C.F.A.
Vice President and Treasurer

August 7, 2003

Mrs. Pat Oller
Vice President
SouthTrust Bank
P. O. Box 2554
Birmingham, AL 35290

Mail Code A-001-TW-0604

Dear Pat:

The Alabama Department of Insurance has brought to our attention that Liberty National's current policy of investing in repurchase agreements, even on an overnight basis, with 100% collateral violates the Statement of Statutory Accounting Principles #45 of the NAIC Accounting Practices and Procedures Manual. After questioning whether there could be an exception for investments with very short maturities, the Department has replied that Liberty National must comply.

Accordingly, it will be necessary for Liberty National to receive 102% collateral on future repurchase agreements (see attachment). All other procedures will remain the same.

I realize that over collateralization will not come without a cost, and I know it will be passed on to Liberty National. While the higher collateral has to begin immediately, if there is a way for you to quantify the additional expense to LNL, it might be helpful.

Thanks very much and if you have any questions, please give either me or Margaret Milam a call.

Very truly yours

A handwritten signature in cursive script, appearing to read "M. Klyce".

Michael J. Klyce

cc: Gary Coleman, Chief Financial Officer
Tony Brill, Chief Administrative Officer
Jimmy Mayton, Controller

Torchmark Corporation
2001 Third Avenue, South
Birmingham, Alabama 35233-2186
205 325 2051



Michael J. Klyce, C.F.A.
Vice President and Treasurer

August 7, 2003

Mr. James Standridge
Senior Vice President
Compass Bank
P. O. Box 10566
Birmingham, AL 35296

Dear James:

The Alabama Department of Insurance has brought to our attention that Liberty National's current policy of investing in repurchase agreements, even on an overnight basis, with 100% collateral violates the Statement of Statutory Accounting Principles #45 of the NAIC Accounting Practices and Procedures Manual. After questioning whether there could be an exception for investments with very short maturities, the Department has replied that Liberty National must comply.

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Thanks very much and if you have any questions, please give either me or Margaret Milam a call.

Very truly yours

A handwritten signature in cursive script, appearing to read "Mike", written in dark ink.

Michael J. Klyce

cc: Gary Coleman, Chief Financial Officer
Tony Brill, Chief Administrative Officer
Jimmy Mayton, Controller



August 20, 2003

Mr. Richard L. Ford
Chief Examiner
State of Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, AL 36130-3351

Dear Mr. Ford:

Numerous recommendations regarding various actuarial items were presented in the examination report. Such items include:

1. It is recommended that the Company maintain all records, which comprise the amounts reported in its Annual Statement, Exhibit of Life Insurance.
2. It is recommended that deferred annuity reserves be calculated in accordance with the Commissioners Annuity Reserve Valuation Method (CARVM) for all policies as required by ALA. CODE § 27-32-7, (1975).
3. It is recommended that the Alabama Department of Insurance Regulation Number 120 methodology be implemented by the Company as soon as possible so as to insure future reserves remain compliant and adequate.
4. It is recommended that the reserve calculation for Exhibit 8.A. (Life Insurance) be available on a seriatim basis to facilitate the verification of the calculations for future examinations.
5. It is recommended that the Company maintain complete records of policy detail for amounts used to verify the aggregate reserve for accident and health contracts on page 3, line 2, column 1 of the 2001 Annual Statement accordance with the ALA. CODE § 27-27-29(a) (1975).
6. It is recommended that the Company revise its internal administrative systems to allow the examiners to determine the portion of advance premiums that are true advance premiums, the portion that constitutes unearned premiums, and further subdivide the unearned premiums into those segments which apply to plans having additional reserves and those for which no such additional reserves are required. For those plans where no additional reserves are required, it is recommended the Company hold the gross unearned premium rather than the net valuation unearned premium in accordance with Section 12 of SSAP #54. Failing the Company's ability to comply with this recommendation prior to the next regularly scheduled examination, it is further recommended that an additional liability be established by the Company at an amount equal to the approximate difference between the gross and net unearned premiums for those plans for which no active life reserve is being held.

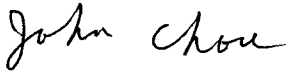
August 20, 2003

Page 2

7. It is recommended that the Company monitor Schedule H and the methodologies utilized in determining these liabilities and appropriately rectify any inadequacies in these liabilities.
8. It is recommended that the Company establish a liability for all unpaid claims as of year end in accordance with SSAP No. 55, Section 6b of the NAIC Accounting Practices and Procedures Manual.
9. It is recommended that the Company include the resisted claims in course of settlement for A&H claims in line 2.2 of Exhibit 11 as instructed in the NAIC Annual Statement Instructions.

Work is either currently underway or will commence shortly on each of the items above. We believe all of the work necessary to implement the examination recommendations will be completed before December 31, 2003.

Sincerely,



John Chou
Chief Actuary

JC:kc



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

January 18, 2002

Anthony Leon McWhorter
President
Liberty National Life Insurance Company
2001 Third Avenue South
P. O. Box 2612
Birmingham, AL 35202

Re: Financial Examination As Of December 31, 2001

Dear Mr. McWhorter:

This letter is to inform you of a financial examination of your company called by the Alabama Department of Insurance and to authorize Jim Hattaway, CFE, Examiner, to conduct the examination. This authorization is pursuant to the instructions of Alabama Insurance Commissioner, D. David Parsons, and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners.

Your examination is to commence on or about March 25, 2002, and will be conducted primarily in your offices. The expected duration of the examination is approximately seven months. Preliminary planning of your examination will first begin in the offices of the Alabama Department of Insurance. The examiner will arrive in your offices on or after this date. You will be contacted by Mr. Hattaway regarding the exact arrival date at your offices.

The Alabama Insurance Department has adopted work policies and rules governing work hours, leave and unacceptable conduct including sexual harassment. If you have any question about our examiner's conduct at your offices, please contact me immediately.

As part of your examination, the enclosed internal control and information systems questionnaire is required to be completed for review by our examiner. Please complete and return the questionnaire to this Department within 30 days, addressed to the attention of the Examiners' Division. The questions may be answered on the questionnaire itself or on a separate sheet if additional explanation is required. If possible, your CPA's workpapers and a representative of your CPA firm should be available the week of March 25, 2002, for review at your offices.

Invoices covering examination fees and related expenses will be submitted to the appropriate company official in accordance with standard Departmental policy. Payment of any examination charges so invoiced are due within two business days following presentation of the invoice.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosures

cc: Jack M. Brown, CFE
Jim Hattaway, CFE
Sean Duke

EQUAL OPPORTUNITY EMPLOYER

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Anthony L. McWhorter
President
Liberty National Life Ins Co
2001 Third Avenue South
P. O. Box 2612
Birmingham, AL 35202

4a. Article Number

70993400001523274985

4b. Service Type

- ☐ Registered ☒ Certified
☐ Express Mail ☐ Insured
☒ Return Receipt for Merchandise ☐ COD

7. Date of Delivery

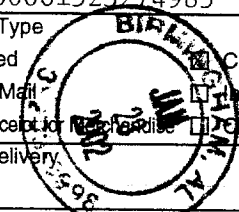
5. Received By: (Print Name)

Frank R. McWhorter

6. Signature: (Addressee or Agent)

X

8. Addressee's Address (Only if requested and fee is paid)



Thank you for using Return Receipt Service.



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
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D. DAVID PARSONS
COMMISSIONER
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STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

February 5, 2002

John A. MacBain
Actuarial Resources Corporation
2753 State Road 580, Suite 101
Clearwater, FL 33761

**Re: Examination of Liberty National Life Insurance Company
As of December 31, 2001**

Dear Mr. MacBain:

This letter is to request and authorize your participation in the examination of the above referenced company for the purpose of computing reserves and making other valuations in your usual manner.

The examination will begin on or about March 25, 2002. The examination for this company is being conducted in the company's offices at 2001 Third Avenue South, Birmingham, AL 35233, and will cover the period ending December 31, 2001. The expected duration of the examination is approximately seven months.

The Examiner-in-Charge will be Mr. Jim Hattaway. Please contact him at the company after the beginning date to coordinate the scheduling of your portion of this examination. The company telephone number is (205) 325-2864.

If your schedule does not permit you to accept this assignment, please let me know so that other arrangements can be made.

Thank you for your assistance in this matter.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

cc: Jack M. Brown, CFE
Jim Hattaway, CFE
Sean Duke

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

John A. MacBain
Actuarial Resources Corporation
2753 State Road, Suite 101
Clearwater, FL 33761

Re: Liberty National Life

2. Article Number (Copy from service label)

7099 3400 0015 2327 6712

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

S. Peterson

B. Date of Delivery

2/11/02

C. Signature

X *S. Peterson*

☐ Agent☐ Addressee

D. Is delivery address different from item 1?

☐ Yes

If YES, enter delivery address below:

☐ No

3. Service Type

☒ Certified Mail☐ Express Mail☐ Registered☒ Return Receipt for Merchandise☐ Insured Mail☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes



January 10, 2003

James L. Hattaway, III, CFE
Examiner-In-Charge
Alabama Department of Insurance
Post Office Box 303350
Montgomery, Alabama 36130-3350

We are providing this letter in connection with your examination of the statutory financial statements of Liberty National Life Insurance Company as of December 31, 2001, and for the period from January 1, 1997 to December 31, 2001. We are responsible for the preparation of the statutory financial statements of financial position, results of operations, and changes in statutory financial position in conformity with the accounting practices prescribed or permitted by the Alabama Department of Insurance.

Certain representations in this letter are described as being limited to those matters that are material. Solely for the purpose of preparing this letter, the term "material," when used in this letter, means any item or group of similar items involving potential amounts of more than \$3,000,000. These amounts are not intended to represent the materiality threshold for financial reporting and disclosure purposes. Notwithstanding this, an item is considered material, regardless of size, if it involves an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during the examination.

1. We have made available to you all:
 - Statutory financial records and related data; and
 - Minutes of meetings of stockholders, directors and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

2. There have been no:

- Fraud or other irregularities involving management or employees who have significant roles in the internal control structure;
- Fraud or other irregularities involving other employees that have or may have a material effect on the statutory financial statements;
- Fraud or other irregularities involving agents, MGAs, third party administrators, independent contractors, holding companies or other individuals or parties that have or may have a material effect on the statutory financial position of the Company; or
- Communications from regulatory agencies concerning noncompliance with, or deficiencies in, statutory financial reporting practices.

3. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

4. The financial statements are free of material and intentional immaterial misstatements.

5. The following have been properly recorded or disclosed in the statutory financial statements:

- Any related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
- All liabilities, both actual and contingent.
- Guarantees whether written or oral, under which the Company is contingently liable.
- Capital stock repurchase options or agreements on capital stock reserved for options, warrants, conversions, or other requirements.
- Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
- Significant estimates and material concentrations known to management that are required to be disclosed in accordance with SSAP No. 1, *Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures*.
- Amount of credit risk and extent, nature, and terms of financial instruments with off-balance-sheet risk to be disclosed in accordance with SSAP No. 27.
- Agreements to repurchase assets previously sold.

6. We confirm the completeness of the information provided regarding the identification or related parties.
7. There are no violation or possible violations of laws or regulations whose effects should be considered for disclosure in the statutory financial statements or as a basis for recording a loss contingency.
8. Contingent Liabilities:
 - There are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SSAP No. 5.
 - There is no litigation against the Company, except for the contingent liability disclosed in Note 14 of the financial statements, that is considered material in relation to the statutory financial position of the Company. For purposes of this section, the Company has excluded litigation for which the only amounts sought relate to benefits within the normal terms of coverage under contracts of insurance issued by the Company, and which are otherwise considered in the actuarial determination of the Company's unpaid claim reserves.
9. Adequate provision has been made for adjustments and losses in collection of receivables.
10. Intentionally Omitted
11. The Company is in compliance with bond indentures or other debt instruments.
12. Pending changes in the organizational structure, financing arrangements, or other matters that could have a material effect on the financial statements of the Company are properly disclosed.
13. The Company has properly classified all assets as admitted or nonadmitted in accordance with SSAP No.4.
14. The Company has free and clear title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged except as disclosed in the annual statement.

15. We have received long-lived assets and certain identifiable intangibles whenever changes in circumstances have indicated that the carrying amount of these assets might not be recoverable and have recorded the adjustment in accordance with SSAP No.5.
16. Deferred tax assets and liabilities as reported in the financial statements comply and have been valued in accordance with SSAP No. 10, *Income Taxes*.
17. Investments are appropriately recorded and valued as follows:
- Bonds are recorded and disclosed in accordance with SSAP No. 26 and interpretations thereof.
 - Preferred stocks – are recorded and disclosed in accordance with SSAP No. 32 and interpretations thereof.
 - Common stocks – are recorded and disclosed in accordance with SSAP No. 30 and interpretations thereof. Common stock of subsidiaries and affiliated or controlled companies are recorded and disclosed in accordance with SSAP No. 46 and interpretations thereof.
 - Short-term investments – are recorded and disclosed in accordance with SSAP No. 2 and interpretations thereof.
 - Mortgage loans – are recorded and disclosed in accordance with SSAPs No. 37 & 21 and interpretations thereof.
 - Real estate – are recorded and disclosed in accordance with SSAP No. 40 and interpretations thereof.
 - Policy loans – are recorded and disclosed in accordance with SSAP No. 49 and interpretations thereof.
18. Intentionally Omitted.
19. The Company has properly disclosed and recorded policy reserves in accordance with SSAPs No. 51, 52, 54 and 59. The Company's liabilities for unpaid claims and claim adjustment expenses are based upon and recorded at management's best estimate in accordance with SSAP No. 55.
20. The Company has properly disclosed and recorded separate account transactions in accordance with SSAP No. 56.

21. The Company's actuary has certified as to the propriety of the basis and amounts at which the deferred and uncollected premiums, the reserve for life policies and contracts (including deposit-like contracts; SSAP No. 52), and the reserve for accident and health policies are stated.
22. The Company has computed the asset valuation reserve and interest maintenance reserve in accordance with methods prescribed by the Annual Statement Instructions of the National Association of Insurance Commissioners.
23. There were no material commitments for construction or acquisition of property, plant and equipment, or to acquire other noncurrent assets, such as investments or intangibles.
24. Intentionally Omitted
25. We have complied with all aspects of contractual agreements that would have a material effect on the statutory financial statement in the event of noncompliance.
26. There are no material transactions that have not been properly recorded in the accounting records underlying the statutory financial statements.
27. All required returns and statutory reporting requirements have been filed on a timely basis with the appropriate regulatory bodies.
28. All material reinsurance transactions have been recorded and disclosed in accordance with SSAP No. 61.
29. The Company has properly disclosed and recorded all changes in accounting principles in accordance with SSAP No. 3.
30. The Company has recorded and disclosed subsequent events in accordance with SSAP No. 9.
31. Intentionally Omitted
32. The Company is not aware of the employment of or a business relationship with a "prohibited person" as defined in The Violent Crime Control and Law Enforcement Act of 1994: United States Code, Section 1033 (e)(1)(A).

33. Intentionally Omitted

34. Intentionally Omitted

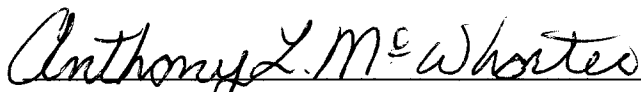
35. Intentionally Omitted

36. The Company has recorded and disclosed defined benefits plans and defined contributions plans in accordance with SSAP No. 8.

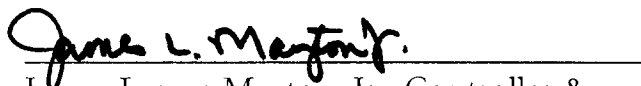
37. The Company has recorded and disclosed postretirement benefits other than pensions in accordance with SSAP No. 14.

We understand that your examination was made in accordance with standards established by the Alabama Department of Insurance, and procedures established by *the National Association of Insurance Commissioners*, and accordingly included such tests of the accounting records and such other procedures as considered necessary under the circumstances.

Liberty National Life Insurance Company


Anthony Leon McWhorter, President

12-20-02
Date


James Lamar Mayton, Jr., Controller &
Vice President

12-20-2002
Date


Larry Mac Hutchison
General Counsel & Secretary

1/07/2003
Date



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

January 29, 2003

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Anthony Leon McWhorter
President
Liberty National Life Insurance Company
2001 Third Avenue South
P. O. Box 2612
Birmingham, AL 35202

RE: Liberty National Life Insurance Company
Report of Examination as of December 31, 2001

Dear Mr. McWhorter:

Enclosed is a copy of the Report of Examination of the above-cited company as of December 31, 2001. In the event that you have any objections to this report, please advise this Department in writing within twenty (20) days, and a hearing will be scheduled, at which time you may present your arguments regarding any objections.

Unless we hear from you within the above-stated time, the report will be filed as a public document. Once filed, no annual or quarterly statements, or other material reflecting the statutory financial condition of the company may be filed with or accepted by this Department if those statements conflict with any basis of calculation to establish the value of any asset, liability, or capital account in the report.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosure

cc: Jack M. Brown, CFE
Jim Hattaway, CFE
Sean Duke

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. Anthony Leon McWhorter
President
Liberty National Life Insurance Co
2001 Third Avenue South
P. O. Box 2612
Birmingham, AL 35202

COMPLETE THIS SECTION ON DELIVERYA. Received by *Frank Kirkland* B. Date of Delivery

C. Signature

X

Frank Kirkland☐ Agent☐ AddresseeD. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail☐ Express Mail☐ Registered☒ Return Receipt for Merchandise☐ Insured Mail☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

2. Article Number (Copy from service label)

1000 1670 0006 3511 9749

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

Liberty National
Life Insurance Company
P.O. Box 2612
Birmingham, Alabama 35202
205 325 2864
205 325 2021 Fax



James L. Mayton, Jr.
Vice President and Controller

February 19, 2003

Mr. Richard L. Ford
Acting Deputy Commissioner & Chief Examiner
State of Alabama Department of Insurance
P. O. Box 303351
Montgomery, AL 36130-3351

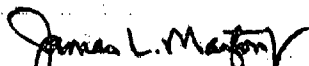
Fax: (334) 241-4192

Dear Mr. Ford:

We received your letter dated January 29, 2003, about the completion of the examination of Liberty National Life Insurance Company as of December 31, 2001. You indicated in your letter that we had twenty days to file any objections which we do not plan to do. You stated in the letter that the report will be filed as a public document after this twenty-day period, and I assume that this will be either February 25 or 26. As you know, the big annual filing date for the year-end annual statement is March 1 of each year. We would like to request that this document be filed with a March 10 date. This will give us additional time to file this examination report with all the states and not conflict with the year-end normal filing.

Please fax me by Friday morning, February 21, to let me know if this March 10 filing date is acceptable to you.

Sincerely,


James L. Mayton, Jr.

JLM,Jr./kc

TRANSACTION REPORT

P. 01

FEB-19-03 WED 12:55 PM

RECEIVE

DATE	START	SENDER	RX TIME	PAGES	TYPE	NOTE	M#	DP
FEB-19	12:55 PM	205+325+2021	32"	1	RECEIVE	OK		



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA

IN THE MATTER OF:)
FINANCIAL CONDITION EXAMINATION OF)
LIBERTY NATIONAL LIFE INSURANCE COMPANY)
AS OF DECEMBER 31, 2001)

ORDER

ON THE 10th day of March, 2003, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Liberty National Life Insurance Company is a domestic insurer licensed for life, disability, and annuities, in the State of Alabama.

ORDER
FINANCIAL CONDITION EXAMINATION
PAGE 2

FINDINGS OF FACT

1. That on January 24, 2003, the verified Financial Condition Examination Report of Liberty National Life Insurance Company was filed with the Insurance Department.
2. That following receipt of the December 31, 2001 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.
3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.
4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the December 31, 2001 Financial Condition Examination Report of Liberty National Life Insurance Company shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

ORDER
FINANCIAL CONDITION EXAMINATION
PAGE 3

ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2001 Financial Condition Examination Report of Liberty National Life Insurance Company is hereby Adopted.
2. That Liberty National Life Insurance Company file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That Liberty National Life Insurance Company file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.
4. That Liberty National Life Insurance Company shall comply with the recommendations set forth in the Report of Examination, and that failure by Liberty National Life Insurance Company to so comply may result in sanctions or administrative action; and further, that Liberty National Life Insurance Company shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

WITNESS My Hand and Official Seal this 10th day of March, 2003.

(SEAL)



Walter A. Bell
Insurance Commissioner
201 Monroe Street, Ste 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____, _____ (office) of
_____ Company, do hereby certify that the Report of Examination of
_____ Company as of _____, _____, was filed with all states in
which _____ Company is licensed; and with the office of the National Association of
Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the _____ day of _____, 2003.

Seal

Notary

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. Anthony Leon McWhorter
President
Liberty National Life Insurance Co
2001 Third Avenue South
P O Box 2612
Birmingham, AL 35202

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery

Joan Fields

3-19-03

C. Signature

X Joan Fields

☐ Agent☐ Addressee

D. Is delivery address different from item 1?

☐ YesIf YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail☐ Express Mail☐ Registered☒ Return Receipt for Merchandise☐ Insured Mail☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

2. A

7002 2030 0000 9484 0195

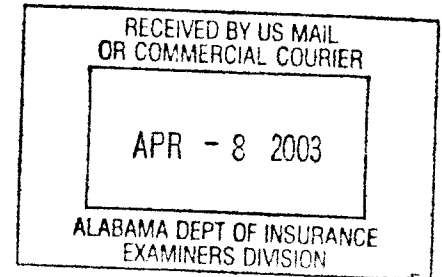
Torchmark Corporation
2001 Third Avenue, South
Birmingham, Alabama 35233-2186
205 325 4243
205 325 4198 (Fax)



Carol A. McCoy
Vice President,
Associate Counsel and Secretary

VIA FEDERAL EXPRESS

April 7, 2003



Walter A. Bell, Commissioner
Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36130

Re: Liberty National Life Insurance Company

Dear Commissioner Bell:

Pursuant to your Order dated March 10, 2003 regarding the Financial Condition Examination Report of Liberty National Life Insurance Company, enclosed please find affidavits from each of the Liberty National directors and a Certificate of the Assistant Secretary of Liberty National regarding review of the Examination Report by the Liberty National Board of Directors.

Very truly yours,

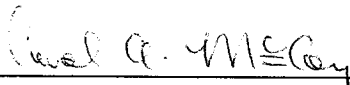
A handwritten signature in cursive script that reads "Carol A. McCoy".
Carol A. McCoy

CAM:ts

CERTIFICATION

I, Carol A. McCoy, Assistant Secretary of Liberty National Life Insurance Company (the "Company"), do hereby certify that:

1. The attached Unanimous Written Consent of the Board of Directors of Liberty National Life Insurance Company dated March 21, 2003 was circulated to all members of the Board of Directors of the Company, who reviewed the same and duly executed such Unanimous Written Consent.
2. Said Unanimous Written Consent has been duly filed in the official minutes of the proceedings of the Board of Directors of the Company.
3. Said Unanimous Written Consent and the resolutions contained therein remain true, complete, correct and in full force and effect as of this date, April 7, 2003.



Carol A. McCoy
Assistant Secretary

Sworn and subscribed before the undersigned authority on the 7th day of April, 2003.

SEAL



Notary
My Commission Expires: 4-3-05

**UNANIMOUS WRITTEN CONSENT OF THE BOARD OF DIRECTORS OF
LIBERTY NATIONAL LIFE INSURANCE COMPANY
IN LIEU OF SPECIAL MEETING**

The undersigned, constituting all of the members of the Board of Directors of Liberty National Life Insurance Company, acting pursuant to Section 10-2A-66 of the Code of Alabama 1975, do hereby consent to the adoption of the following resolutions by unanimous written consent in lieu of a special meeting and direct that this consent be placed with the minutes of the proceedings of the Board of Directors of the Company:

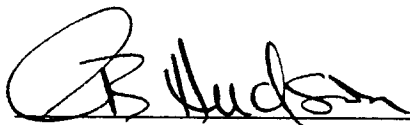
WHEREAS, pursuant to an Order dated March 10, 2003, the Alabama Department of Insurance directed that the Company file affidavits with the Department stating that a copy of the adopted and issued December 31, 2001 Financial Condition Examination Report of Liberty National Life Insurance Company (the "Examination Report") and related orders has been reviewed by the Board of Directors of the Company within thirty days of the issuance of the adopted Examination Report; and

WHEREAS, pursuant to said Order, the Department also directed that the Company file a copy of the adopted Examination Report and related orders with all its licensing states and the NAIC.

NOW THEREFORE, BE IT RESOLVED, that the Board of Directors of the Company hereby acknowledges that each member has reviewed the Examination Report and related orders and will file an affidavit with the Alabama Department of Insurance evidencing the same.

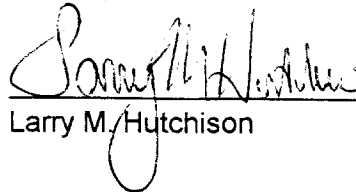
RESOLVED FURTHER, that appropriate officers of the Company are hereby directed to file a copy of the adopted Examination Report and related orders with all states and jurisdictions where the Company is licensed and with the NAIC and an affidavit with the Alabama Department of Insurance evidencing the same.

Dated this 21st day of March, 2003.



C.B. Hudson

Anthony L. McWhorter



Larry M. Hutchison

Ronald D. Watts

Hillary Carnley

**UNANIMOUS WRITTEN CONSENT OF THE BOARD OF DIRECTORS OF
LIBERTY NATIONAL LIFE INSURANCE COMPANY
IN LIEU OF SPECIAL MEETING**

The undersigned, constituting all of the members of the Board of Directors of Liberty National Life Insurance Company, acting pursuant to Section 10-2A-66 of the Code of Alabama 1975, do hereby consent to the adoption of the following resolutions by unanimous written consent in lieu of a special meeting and direct that this consent be placed with the minutes of the proceedings of the Board of Directors of the Company:

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WHEREAS, pursuant to said Order, the Department also directed that the Company file a copy of the adopted Examination Report and related orders with all its licensing states and the NAIC.

NOW THEREFORE, BE IT RESOLVED, that the Board of Directors of the Company hereby acknowledges that each member has reviewed the Examination Report and related orders and will file an affidavit with the Alabama Department of Insurance evidencing the same.

RESOLVED FURTHER, that appropriate officers of the Company are hereby directed to file a copy of the adopted Examination Report and related orders with all states and jurisdictions where the Company is licensed and with the NAIC and an affidavit with the Alabama Department of Insurance evidencing the same.

Dated this 21st day of March, 2003.

C.B. Hudson



Anthony L. McWhorter

Ronald D. Watts

Larry M. Hutchison

Hillary Camley

**UNANIMOUS WRITTEN CONSENT OF THE BOARD OF DIRECTORS OF
LIBERTY NATIONAL LIFE INSURANCE COMPANY
IN LIEU OF SPECIAL MEETING**

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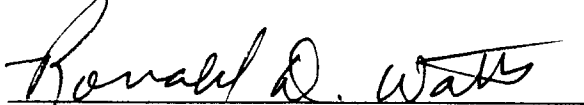
WHEREAS, pursuant to said Order, the Department also directed that the Company file a copy of the adopted Examination Report and related orders with all its licensing states and the NAIC.

NOW THEREFORE, BE IT RESOLVED, that the Board of Directors of the Company hereby acknowledges that each member has reviewed the Examination Report and related orders and will file an affidavit with the Alabama Department of Insurance evidencing the same.

RESOLVED FURTHER, that appropriate officers of the Company are hereby directed to file a copy of the adopted Examination Report and related orders with all states and jurisdictions where the Company is licensed and with the NAIC and an affidavit with the Alabama Department of Insurance evidencing the same.

Dated this 21st day of March, 2003.

C.B. Hudson



Ronald D. Watts

Anthony L. McWhorter

Larry M. Hutchison

Hillary Camley

**UNANIMOUS WRITTEN CONSENT OF THE BOARD OF DIRECTORS OF
LIBERTY NATIONAL LIFE INSURANCE COMPANY
IN LIEU OF SPECIAL MEETING**

The undersigned, constituting all of the members of the Board of Directors of Liberty National Life Insurance Company, acting pursuant to Section 10-2A-66 of the Code of Alabama 1975, do hereby consent to the adoption of the following resolutions by unanimous written consent in lieu of a special meeting and direct that this consent be placed with the minutes of the proceedings of the Board of Directors of the Company:

WHEREAS, pursuant to an Order dated March 10, 2003, the Alabama Department of Insurance directed that the Company file affidavits with the Department stating that a copy of the adopted and issued December 31, 2001 Financial Condition Examination Report of Liberty National Life Insurance Company (the "Examination Report") and related orders has been reviewed by the Board of Directors of the Company within thirty days of the issuance of the adopted Examination Report; and

WHEREAS, pursuant to said Order, the Department also directed that the Company file a copy of the adopted Examination Report and related orders with all its licensing states and the NAIC.

NOW THEREFORE, BE IT RESOLVED, that the Board of Directors of the Company hereby acknowledges that each member has reviewed the Examination Report and related orders and will file an affidavit with the Alabama Department of Insurance evidencing the same.

RESOLVED FURTHER, that appropriate officers of the Company are hereby directed to file a copy of the adopted Examination Report and related orders with all states and jurisdictions where the Company is licensed and with the NAIC and an affidavit with the Alabama Department of Insurance evidencing the same.

Dated this 21st day of March, 2003.

C.B. Hudson

Anthony L. McWhorter

Ronald D. Watts

Larry M. Hutchison



Hillary Camley

Affidavit of C. B. Hudson

State of Texas)
County of Collin)

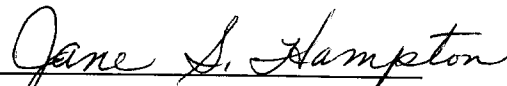
C. B. Hudson, being duly sworn, deposes and says:

1. I am a director of Liberty National Life Insurance Company ("Liberty").
2. I am submitting this affidavit pursuant to the Order dated March 10, 2003 of the Alabama Insurance Department In the Matter of: Financial Condition Examination of Liberty National Life Insurance Company as of December 31, 2001.
3. I hereby attest that I have received and reviewed a copy of the adopted Financial Condition Examination Report within 30 days of the issuance of said adopted Report.
4. I hereby further attest that I executed a Unanimous Written Consent of the Board of Directors of Liberty National dated March 21, 2003 evidencing the aforesaid.



C. B. Hudson

Subscribed and sworn to before me this 31st day of March, 2003.



Notary Public

My commission expires _____

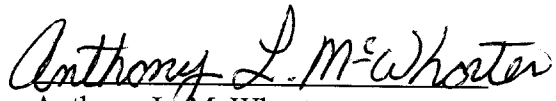
NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Feb 24, 2007
BONDED THRU NOTARY PUBLIC UNDERWRITERS

Affidavit of Anthony L. McWhorter

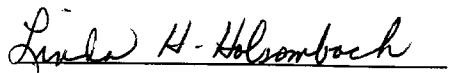
State of Alabama)
County of Jefferson)

Anthony L. McWhorter, being duly sworn, deposes and says:

1. I am President and Chief Executive Officer of Liberty National Life Insurance Company ("Liberty").
2. I am submitting this affidavit pursuant to the Order dated March 10, 2003 of the Alabama Insurance Department In the Matter of: Financial Condition Examination of Liberty National Life Insurance Company as of December 31, 2001.
3. I hereby attest that I have received and reviewed a copy of the adopted Financial Condition Examination Report within 30 days of the issuance of said adopted Report.
4. I hereby further attest that I executed a Unanimous Written Consent of the Board of Directors of Liberty National dated March 21, 2003 evidencing the aforesaid.


Anthony L. McWhorter

Subscribed and sworn to before me this 31st day of March, 2003.

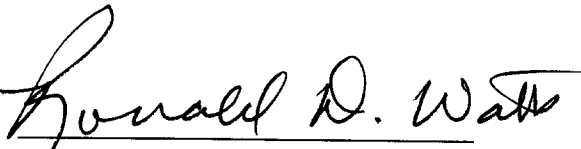

Notary Public
My commission expires 2-2-04

Affidavit of Ronald D. Watts

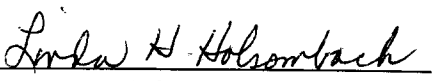
State of Alabama)
County of Jefferson)

Ronald D. Watts, being duly sworn, deposes and says:

1. I am Executive Vice President-Chief Marketing Officer of Liberty National Life Insurance Company ("Liberty").
2. I am submitting this affidavit pursuant to the Order dated March 10, 2003 of the Alabama Insurance Department In the Matter of: Financial Condition Examination of Liberty National Life Insurance Company as of December 31, 2001.
3. I hereby attest that I have received and reviewed a copy of the adopted Financial Condition Examination Report within 30 days of the issuance of said adopted Report.
4. I hereby further attest that I executed a Unanimous Written Consent of the Board of Directors of Liberty National dated March 21, 2003 evidencing the aforesaid.


Ronald D. Watts

Subscribed and sworn to before me this 31st day of March, 2003.

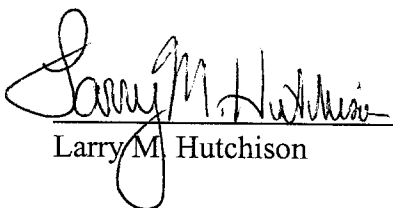

Notary Public
My commission expires 2-2-04

Affidavit of Larry M. Hutchison


State of Texas)
County of Collin)

Larry M. Hutchison, being duly sworn, deposes and says:

1. I am a director and Vice President, General Counsel and Secretary of Liberty National Life Insurance Company ("Liberty").
2. I am submitting this affidavit pursuant to the Order dated March 10, 2003 of the Alabama Insurance Department In the Matter of: Financial Condition Examination of Liberty National Life Insurance Company as of December 31, 2001.
3. I hereby attest that I have received and reviewed a copy of the adopted Financial Condition Examination Report within 30 days of the issuance of said adopted Report.
4. I hereby further attest that I executed a Unanimous Written Consent of the Board of Directors of Liberty National dated March 21, 2003 evidencing the aforesaid.


Larry M. Hutchison

Subscribed and sworn to before me this 31st day of March, 2003.


Notary Public
My commission expires _____

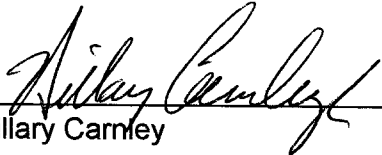
NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Feb 24, 2007
BONDED THRU NOTARY PUBLIC UNDERWRITERS

Affidavit of Hillary Camley

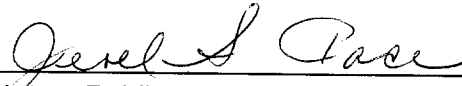
State of Alabama)
County of Jefferson)

Hillary Camley, being duly sworn, deposes and says:

1. I am Senior Vice President of Liberty National Life Insurance Company ("Liberty").
2. I am submitting this affidavit pursuant to the Order dated March 10, 2003 of the Alabama Insurance Department In the Matter of: Financial Condition Examination of Liberty National Life Insurance Company as of December 31, 2001.
3. I hereby attest that I have received and reviewed a copy of the adopted Financial Condition Examination Report within 30 days of the issuance of said adopted Report.
4. I hereby further attest that I executed a Unanimous Written Consent of the Board of Directors of Liberty National dated March 21, 2003 evidencing the aforesaid.


Hillary Camley

Subscribed and sworn to before me this 7th day of April, 2003.


Notary Public

My Commission expires: 4-3-05



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

May 1, 2003

Mr. Anthony Leon McWhorter
President
Liberty National Life Insurance Company
2001 Third Avenue South
P. O. Box 2612
Birmingham, AL 35202

Dear Mr. McWhorter:

I have enclosed a copy of the March 10, 2003, Commissioner's Order relating to the financial examination of Liberty National Life Insurance Company as of December 31, 2001.

The Order requires that Liberty National Life Insurance Company file an affidavit within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC.

Your company is requested to respond to this office within 10 days with a statement signed by an appropriate official of the company indicating the corrective action taken by the company to comply with the recommendations made in the Report of Examination.

The NAIC affidavit and responses have not been received by the Department of Insurance as of this date. You are instructed to file this affidavit and responses in accordance with the Commissioner's Order within ten (10) days of the receipt of this letter to avoid further action being taken by the Department of Insurance.

Sincerely,


Richard L. Ford, CFE, CIE
Chief Examiner

RLF:dk

Enclosures

cc: Jack Brown, CFE, CIE
Jim Hattaway, CFE
Sean Duke



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
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WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA

IN THE MATTER OF:)

FINANCIAL CONDITION EXAMINATION OF)

LIBERTY NATIONAL LIFE INSURANCE COMPANY)

AS OF DECEMBER 31, 2001)

ORDER

ON THE 10th day of March, 2003, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Liberty National Life Insurance Company is a domestic insurer licensed for life, disability, and annuities, in the State of Alabama.

FINDINGS OF FACT

1. That on January 24, 2003, the verified Financial Condition Examination Report of Liberty National Life Insurance Company was filed with the Insurance Department.
2. That following receipt of the December 31, 2001 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.
3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.
4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the December 31, 2001 Financial Condition Examination Report of Liberty National Life Insurance Company shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2001 Financial Condition Examination Report of Liberty National Life Insurance Company is hereby Adopted.
2. That Liberty National Life Insurance Company file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That Liberty National Life Insurance Company file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.
4. That Liberty National Life Insurance Company shall comply with the recommendations set forth in the Report of Examination, and that failure by Liberty National Life Insurance Company to so comply may result in sanctions or administrative action; and further, that Liberty National Life Insurance Company shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

WITNESS My Hand and Official Seal this 10th day of March, 2003.

(SEAL)



Walter A. Bell
Insurance Commissioner
201 Monroe Street, Ste 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____, _____ (office) of
_____ Company, do hereby certify that the Report of Examination of
_____ Company as of _____, _____, was filed with all states in
which _____ Company is licensed; and with the office of the National Association of
Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the _____ day of _____, 2003.

Seal

Notary

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. Anthony Leon McWhorter
President
Liberty National Life Insurance Co
2001 Third Avenue South
P O Box 2612
Birmingham, AL 35202

2. Article Number (Copy from mailing label)

7002 2030 0000 9484 0041

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

COMPLETE THIS SECTION ON DELIVERYA. Received by (Please Print Clearly) *Frank Kirkland* B. Date of DeliveryC. Signature *Frank Kirkland* ☐ Agent
☒ AddresseeD. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail ☐ Express Mail
☐ Registered ☒ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

May 1, 2003

THIRD REQUEST
5/23/03

Mr. Anthony Leon McWhorter
President
Liberty National Life Insurance Company
2001 Third Avenue South
P. O. Box 2612
Birmingham, AL 35202

Dear Mr. McWhorter:

I have enclosed a copy of the March 10, 2003, Commissioner's Order relating to the financial examination of Liberty National Life Insurance Company as of December 31, 2001.

The Order requires that Liberty National Life Insurance Company file an affidavit within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC.

Your company is requested to respond to this office within 10 days with a statement signed by an appropriate official of the company indicating the corrective action taken by the company to comply with the recommendations made in the Report of Examination.

The NAIC affidavit and responses have not been received by the Department of Insurance as of this date. You are instructed to file this affidavit and responses in accordance with the Commissioner's Order within ten (10) days of the receipt of this letter to avoid further action being taken by the Department of Insurance.

Sincerely,


Richard L. Ford, CFE, CIE
Chief Examiner

RLF:dk

Enclosures

cc: Jack Brown, CFE, CIE
Jim Hattaway, CFE
Sean Duke

EQUAL OPPORTUNITY EMPLOYER



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE E. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA

IN THE MATTER OF:)
FINANCIAL CONDITION EXAMINATION OF)
LIBERTY NATIONAL LIFE INSURANCE COMPANY)
AS OF DECEMBER 31, 2001)

ORDER

ON THE 10th day of March, 2003, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Liberty National Life Insurance Company is a domestic insurer licensed for life, disability, and annuities, in the State of Alabama.

EQUAL OPPORTUNITY EMPLOYER

FINDINGS OF FACT

1. That on January 24, 2003, the verified Financial Condition Examination Report of Liberty National Life Insurance Company was filed with the Insurance Department.
2. That following receipt of the December 31, 2001 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.
3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.
4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the December 31, 2001 Financial Condition Examination Report of Liberty National Life Insurance Company shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

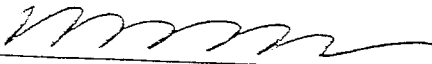
ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2001 Financial Condition Examination Report of Liberty National Life Insurance Company is hereby Adopted.
2. That Liberty National Life Insurance Company file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That Liberty National Life Insurance Company file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.
4. That Liberty National Life Insurance Company shall comply with the recommendations set forth in the Report of Examination, and that failure by Liberty National Life Insurance Company to so comply may result in sanctions or administrative action; and further, that Liberty National Life Insurance Company shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

WITNESS My Hand and Official Seal this 10th day of March, 2003.

(SEAL)



Walter A. Bell
Insurance Commissioner
201 Monroe Street, Ste 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____ (office) of _____ Company, do hereby certify that the Report of Examination of _____ Company as of _____, was filed with all states in which _____ Company is licensed; and with the office of the National Association of Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the _____ day of _____, 2003.

Seal

Notary

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. Anthony Leon McWhorter
President
Liberty National Life Insurance
2001 Third Avenue South
P O Box 2612
Birmingham, AL 35202

COMPLETE THIS SECTION ON DELIVERYReceived by (Please Print Clearly) *Frank Kirkland* B. Date of Delivery

C. Signature

x Frank Kirkland☐ Agent
☐ AddresseeD. Is delivery address different from item 1?
If YES, enter delivery address below:☐ Yes
☒ No

3. Service Type

- ☒ Certified Mail ☐ Express Mail
☐ Registered ☒ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

7002 2030 0000 9484 0119

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

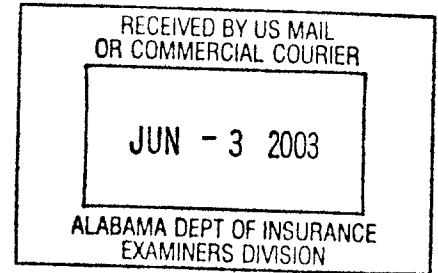
Liberty National
Life Insurance Company
P.O. Box 2612
Birmingham, Alabama 35202
205 325 2864
205 325 2021 Fax



James L. Mayton, Jr.
Vice President and Controller

May 29, 2003

Mr. Robert L. Ford, CFE, CIE
Chief Examiner
State of Alabama, Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, AL 36104



FAX: (334) 241-4192

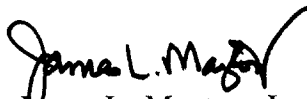
Dear Mr. Ford:

On May 8, we responded to the certification that we had filed the examination report with all of the states in which we are licensed. We sent this to you by Federal Express on this date and a copy of the bill will be included with the items that I overnight to you.

The state of Mississippi has also requested a certified copy from the Insurance Department, and I am enclosing a copy of the report which I assume you will need to satisfy their requirements like you did for the state of Illinois on May 22.

We are in the process of responding to you about the corrective action that Liberty National is taking to comply with the recommendations of the examination report. We hope to have this completed by the end of next week.

Sincerely,


James L. Mayton, Jr.

JLM,Jr./kc

Liberty National
Life Insurance Company
P.O. Box 2612
Birmingham, Alabama 35202
205 325 2864
205 325 2021 Fax



James L. Mayton, Jr.
Vice President and Controller

May 8, 2003

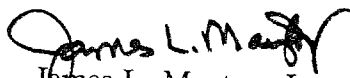
Mr. Richard L. Ford, CFE, CIE
Chief Examiner
State of Alabama, Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, AL 36104

Dear Mr. Ford:

You will find attached a copy of our March 12 letter to the various insurance departments of which we are licensed, and a certification for which states this has been filed.

We have received a letter from the Mississippi Insurance Department which acknowledges the receipt of the examination report, but requires a certification from the insurance department. Their letter stated that we were domiciled in Indiana. Would you please handle this certification for them.

Sincerely,


James L. Mayton, Jr.

JLM,Jr./kc

copy to: Ms. Lee Parker, Mississippi Insurance Department

Liberty National
Life Insurance Company
P.O. Box 2612
Birmingham, Alabama 35202
205 325 2864
205 325 2021 Fax



James L. Mayton, Jr.
Vice President and Controller

March 12, 2003

TO: All Insurance Regulatory Agencies of the
States in which Liberty National Life
Insurance Company is Licensed

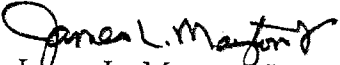
RE: Association Examination as of December 31, 2001

Gentlemen:

To satisfy your regulatory requirements, you will find enclosed a certified copy of the Association Examination for Liberty National Life Insurance Company as of December 31, 2001. This examination was recently completed by representatives of the state of Alabama. It was filed as a public document on March 10, 2003, in the state of Alabama.

If you have any questions, please do not hesitate to contact us.

Sincerely,


James L. Mayton, Jr.
Vice President & Controller

JLM,Jr./kc

encl.

CERTIFICATION

I, James L. Mayton, Jr. 2001 Third Avenue South
Birmingham, AL 35233 (office) of
Liberty National Life Insurance Company, do hereby certify that the Report of Examination of
Liberty National Life Ins. Company as of December 31, 2001, was filed with all states in
which Liberty Nat. Life Ins. Company is licensed, and with the office of the National Association of
Insurance Commissioners.

By: James L. Mayton

Sworn and subscribed before the undersigned authority on the 21 day of March, 2003.

Seal

Laura Day Kornyly
Notary

MY COMMISSION EXPIRES MAY 23, 2006

GEORGE DALE
Commissioner of Insurance
State Fire Marshal

LEE HARRELL
Deputy Commissioner



STATE OF MISSISSIPPI
Mississippi Insurance Department

1001 Woolfolk Building (392
Post Office Box
Jackson, Mississippi 39205-01
(601) 359-31
<http://www.doi.state.ms>

SECOND REQUEST

March 24, 2003

MAY - 5 2003

Mr. James L. Mayton, Jr.
Vice President & Controller
Liberty National Life Insurance Company
P O Box 2612
Birmingham, AL 35202

RE: Examination Report for Liberty National Life Insurance Company NAIC # 65331

Dear Mr. Mayton:

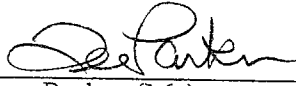
Receipt is hereby acknowledged of the Report Examination as of December 31, 2001. Since Mississippi requires original certification from your domiciliary official, the Indiana Insurance Department, this is being held in suspense until such time that we receive the certified copy.

Mississippi Code Annotated, Section 83-5-73 (1972) required a fee of \$25.00 for this filing of your company's report. Please send check made payable to the Mississippi Insurance Department.

If you have any questions please contact Lee Parker, Examination Division (601)359-3569.

Sincerely,

GEORGE DALE
COMMISSIONER OF INSURANCE

BY 
Lee Parker (Ms)
Analyst, Systems and Procedures

GD/lp

CX# 33021898
D/L# 030407400191



USA Airbill

FedEx
Tracking
Number

8402 4600 3491

1 From Please print and press hard.
Date 05/08/2003 Sender's FedEx Account Number 0352-0972-7
Sender's Name James Mayton Phone (205) 325-2864
Company LIBERTY NATIONAL LIFE INS
Address 2001 3RD AVE S
City BIRMINGHAM State AL ZIP 35203-2115
2 Your Internal Billing Reference
3 To Recipient's Name Richard L. Ford, Chief Examiner
Company State of Alabama
Address Department of Insurance
Address 201 Monroe Street, Suite 1700
City Montgomery State AL ZIP 36104

Try online shipping at fedex.com

By using this Airbill you agree to the service conditions on the back of this Airbill and in our current Service Guide, including terms that limit our liability.
Questions? Visit our Web site at fedex.com
or call 1.800.Go.FedEx® 800.463.3339.

0243738436

MUR11

0215

Form
101 No.

4a Express Package Service

☒ FedEx Priority Overnight Next business morning
☐ FedEx Standard Overnight Next business afternoon
☐ FedEx First Overnight Earliest next business morning delivery to select locations

☐ FedEx 2Day Second business day
☐ FedEx Express Saver Third business day

4b Express Freight Service

☐ FedEx 1Day Freight* Next business day
☐ FedEx 2Day Freight Second business day
☐ FedEx 3Day Freight Third business day

* Call for Confirmation.

5 Packaging

☒ FedEx Envelope*
☐ FedEx Pak* Includes FedEx Small Pak, FedEx Large Pak, and FedEx Sturdy Pak

6 Special Handling

☐ SATURDAY Delivery Available ONLY for FedEx Priority Overnight and FedEx 2Day to select ZIP codes.
☐ HOLD Weekday at FedEx Location NOT Available for FedEx First Overnight.
☐ HOLD Saturday at FedEx Location Available ONLY for FedEx First Overnight and FedEx 2Day to select locations.

Does this shipment contain dangerous goods?

☐ No ☐ Yes
☐ Shipper's Declaration Not Required
☐ Shipper's Declaration Required

7 Payment Bill to

☒ Sender Acct. No. in Section 1 will be billed.
☐ Recipient ☐ Third Party ☐ Credit Card ☐ Cash/Check

FedEx Acct. No.
Credit Card No.

Total Packages Total Weight Total Declared Value*

\$.00

1000 lbs. liability is limited to \$100 unless you declare a higher value. See back for details.

8 Release Signature

Sign to authorize delivery without obtaining signature.

By signing you authorize us to deliver this shipment without obtaining a signature and agree to indemnify and hold us harmless from any resulting claims.

SF® Rev. Date 4/02 • Part #1576105 • ©1994-2002 FedEx • PRINTED IN U.S.A.

447

PULL AND RETAIN THIS COPY BEFORE AFFIXING TO THE PACKAGE.

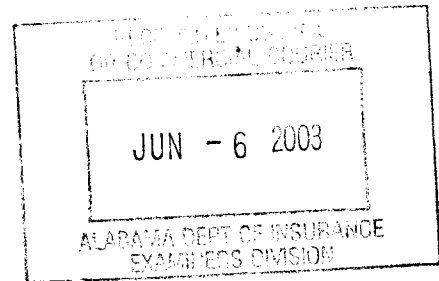
Liberty National
Life Insurance Company
P.O. Box 2612
Birmingham, Alabama 35202
205 325 2864
205 325 2021 Fax



James L. Mayton, Jr.
Vice President and Controller

June 5, 2003

Mr. Richard L. Ford, CFE, CIE
Chief Examiner
State of Alabama, Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, AL 36104




FAX: (334) 241-4192

Dear Mr. Ford:

The Company is responding to you about the corrective action that it is taking to comply with the recommendations of the examination report. This is being sent to you by Federal Express and you should have it Friday, June 6. This should complete all the requirements related to the examination.

Sincerely,


James L. Mayton, Jr.

JLM,Jr./kc

RECOMMENDATION PAGES 49 AND 50, ITEMS ON PAGE 11 OF THE REPORT

The Company thinks it is appropriate to net the receivable payable between affiliates. We do not think this NAIC SSAP Number 64 applies to our affiliated balances and in most cases the balances are settled within 30 days.

RECOMMENDATION PAGE 53, ITEMS ON PAGE 35 OF THE REPORT

The gas and oil tax credit is no longer an issue and we went through the process of getting appropriate approval at the time that this was an issue. We had verbal approval from the NAIC office.

RECOMMENDATION PAGE 56, ITEMS ON PAGE 41 OF THE REPORT

The Company understands the carrying value that should be used in the AVR calculation. This was a minor keying error which the NAIC cross check did not note.

James L. Mayton, Jr.
Vice President & Controller
June 5, 2003

MEMO TO: Jimmy Mayton

FROM: Hubert Morrison

RE: Alabama Insurance Department Examination

DATE: May 23, 2003

I understand the recommendation from the Alabama Insurance Department. By attaching our Advertising Compliance Form to all of our specimen copies of advertisements, including brochures, we feel that we are meeting the requirements of ALA.ADMIN.CODE 69 Section VII (1) (1992).

Advertising Compliance Form

Advertising Form # _____

Medium: ☐ television ☐ newspaper ☐ radio ☐ outdoor ☐ internet
☐ display ☐ banner or sign ☐ other _____

Headline _____

Edition Date: _____

Start Date: _____

Discontinue Date: _____

Form # of policy, if advertised _____

Manner of Distribution: ☐ email ☐ mail ☐ other _____

Extent of Distribution: ☐ AL ☐ FL ☐ GA ☐ LA ☐ MS ☐ SC ☐ TN

Notes: _____

RECOMMENDATION PAGES 49 AND 51, ITEMS ON PAGE 23 OF THE REPORT

The coinsurance agreement with Globe Life and Accident is very old and covers a closed block of business. The Company does not plan to modify this agreement because it feels the amount of ceded commission would be less than \$75,000, and we consider this to be immaterial.

RECOMMENDATION PAGE 55, ITEM ON PAGE 40 OF THE REPORT

Senior Management reviews the litigation accruals on a monthly basis and thinks the amounts accrued meet the NAIC SSAP Number 5 requirements.

Anthony L. McWhorter
President
June 5, 2003

RECOMMENDATION PAGE 51, LINE 1 ON PAGE 23 OF THE REPORT

Amounts Included in the 2002 Annual Statement by Globe

Exhibit I, Part 1:

First Year	Uncollected	90
	Deferred	1,008
	Def & Uncoll	1,098
	Advance	1,140
	Collected*	0
	Previous Year	0
	1st Year Premium**	(577)
Renewal	Uncollected	94,372
	Deferred	545,325
	Def & Uncoll	639,697
	Advance	87,714
	Collected*	2,271,037
	Previous Year	2,334,609
	Renewal Premium**	2,258,981
Total Premium		2,258,404

Exhibit I, Part 2:

Expense Allowance = Premium Tax (A)

Exhibit 11, Part 1:

Claim Liability 0

Exhibit 11, Part 2:

Claim Settlements 502,753

Exhibit 8:

Valuation Basis:	Mean Reserves	
	1958 CSO (ALB) 4% CRVM	11,252,665
	1980 CSO (ALB) 4 1/2% S&U CONT	110
	Total	11,252,775

Exhibit 13, Line 17:

New Business Renewal	Deferred & Uncollected	
	Loading	51
	Loading	36,333
		577
		208,372

Page 15:

	Count	Face Amt.
In Force 12/01	43,008	257,197,500
Issues#	657	3,285,000
Deaths	85	502,753
Lapses	2,858	17,334,747
In Force 12/02	40,722	242,645,000

(A) To be calculated by Liberty

* These numbers are received from Globe Accounting

** 2002 Collected Premium + 2002 D&U - 2001 D&U - 2002 Adv + 2001 Adv

1st Year = 0+1098-1594-1140+1059

Renewal = 2271037+639697-653613-87714+89574

(577)

2,258,981

New Issues are add-ons issued in 2002 to an existing policy and are counted as new business.

RECOMMENDATION PAGES 50 AND 51, ITEMS ON PAGE 8 AND 14 OF THE REPORT

The Company will comply with these recommendations.

Carol McCoy
June 5, 2003

MAYTON, JAMES

From: JMINGORI@torchmarkcorp.com
Sent: Tuesday, May 27, 2003 4:03 PM
To: jmayton@libnat.com
Subject: Alabama Examination

Jimmy: This is in response to the recommendation concerning company insurance policies. I am the corporate risk manager for Torchmark Corporation and all of its subsidiary companies. Coverages are purchased for all companies as a group. The original copies of all policies are therefore maintained in my office. Photocopies of any policy may be provided by overnight mail at any time. If you have a question please call me. Jeff.

This message contains information which is privileged and confidential and is solely for the use of the intended recipient. If you are not the intended recipient, be aware that any review, disclosure, copying, distribution, or use of the contents of this message is strictly prohibited. If you have received this in error, please destroy it immediately and notify us at PrivacyAct@torchmarkcorp.com.

RECOMMENDATION PAC 51, ITEM ON PAGE 23 OF THE REPORT
LIBERTY NATIONAL

To: Terry Davis ✓

From: Stephen Rook *SR*

Cc: John Chou, Beth Erickson, Barbara Frye

Date: May 22, 2003

Re: Examiner Recommendations - Reinsurance

1. Regarding the Alabama examiner's first recommendation:

It is recommended that the Company maintain complete and accurate records in its Alabama home office in accordance with ALA. CODE Section 27-27-29(a) (1975).

I am not aware of any inaccuracies reported by the examiner in our reinsurance records, so I think their concern is in regard to the completeness of our reinsurance records. For instance, the coinsured block ceded to Globe is administered by Globe. We receive an annual memo summarizing the activity for the calendar year. This practice and the fact that we use grouping methods in calculating reserves and reserve credits are the practices I think the examiners were highlighting. However, these practices are common, and I would maintain are suitable to the transactions involved.

The section of the code cited by the examiners is:

(a) Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

In addition, I don't think we had a copy of the letter-of-credit or an amendment to the letter-of-credit when it was first requested by the Alabama examiner. Carol McCoy maintains these items, and to the best of my knowledge, the matter is resolved.

2. Regarding the Alabama examiner's second recommendation:

It is again recommended that the Company modify its coinsurance agreement with Globe in order to receive a fair and reasonable ceding commission.

As implied by the recommendation, this item was raised in a previous examination. LNL did not consider the item material then, and in my opinion, it's even less material now. This matter was referred to Tony McWhorter.

Attachment

RECOMMENDATION PAGES 51 AND 52, ITEMS ON PAGE 27 OF THE REPORT

May 12, 2003

Memo to: Jimmy Mayton

From: Ken Johnson

Re: Alabama Insurance Department Examination

This memo is in response to the recommendations made by the Alabama Insurance Department in reference to Accounts and Records on page 27 of their findings.

It is recommended that the Company perform periodic checks to confirm that employees' current application access is commensurate with their job responsibilities.

Response: I agree with the recommendation and we are presently performing a check to confirm each employee's access to applications commensurate with their job responsibilities. This will be performed periodically.

It is recommended that the Company not allow non-affiliates to access their database without contractual agreement.

Response: I agree with the recommendations and at present there are no non-affiliates accessing our database.

It is also recommended that the Company describe its policies and practices with respect to protecting the confidentiality and security of nonpublic personal financial information to any non-affiliates according to the ALA. ADMIN. CODE 482-1-122.07 (2002).

Response: I agree with the recommendation and will comply.

It is recommended that the IS department follow Company procedures relating to employee access of the online system outlined in its Policies and Procedures regarding Security and Use of Equipment.

Response: I agree with the recommendations and the procedures have been put in place to comply in the future.

If you have any question in reference to my responses please let me know.

RECOMMENDATION PAGE 52, ITEM ON PAGE 33 OF THE REPORT
MEMORANDUM

TO: Jimmy Mayton
FROM: Brenda Parker
DATE: May 9, 2003
RE: LNL exam letter

Carla Hood and I have reviewed the recommendations of the Alabama Insurance Department regarding bonds, preferred stocks, and common stocks. We understand and agree with the recommendations and expect to comply with them to the best of our ability in future reporting. To aid us in this process, please forward to us a copy of Alabama Administrative Code 98 (1994).

Cc: Carla Hood

RECOMMENDATION PAGE 52, ITEMS ON PAGE 33 OF THE REPORT

AL Insurance Departmental Regulation No. 98

AL Insurance Departmental Regulation No. 98

ALABAMA WESTLAW INSURANCE
ALABAMA DEPARTMENTAL REGULATIONS
DEPARTMENT OF INSURANCE
DEPARTMENTAL REGULATION NO. 98 VALUATION OF INVESTMENTS
Complete with amendments included in the April/May/June
2002 Alabama Administrative Code Supplement 02-2.

➔ Regulation No. 98. VALUATION OF INVESTMENTS

Section 1.

This regulation is promulgated by the Commissioner of Insurance pursuant to Section 27-2-17, Code of Alabama 1975.

Section 2.

A. All securities owned by an insurer shall be valued in accordance with those standards promulgated by the NAIC Securities Valuation Office (SVO). Any security owned by an insurer that has not been valued by the SVO shall be submitted to the SVO for valuation in accordance with the procedures of the SVO.

B. Other invested assets, not otherwise valued by statute, shall be valued in accordance with the procedures promulgated by the NAIC's Financial Condition (EX4) Subcommittee.

C. Any security not valued in accordance with this section shall be carried as a non-admitted asset on all financial statements of the insurer until such time as the insurer has complied with subsection A or B or this section.

Section 3.

This regulation shall become effective ten (10) days from the date of certification that the properly executed regulation was delivered to the Secretary of the State.

(Filed: 7-5-94; revised eff. 7-15-94)

AL ADC Ins 98

END OF DOCUMENT

Copr. (C) West 2003 No Claim to Orig. U.S. Govt. Works

RECOMMENDATION PAGE 53, ITEM ON PAGE 34 OF THE REPORT

May 28, 2003

Memorandum to: Jimmy Mayton

Re: Repurchase Transactions

It has been suggested by the Alabama Insurance Examiner that LNL require 102% collateral for its repurchase agreements. In checking into the current practice it appears we have the repurchase agreements, which are virtually always limited to overnight maturities, left on deposit in segregated accounts at individual banks since delivery would make no sense due to the expense and safety ramifications of one-day securities.

The department is correct that 102% collateral is suggested in the NAIC accounting manual. The same provision allows collateral of 100%. The problem with a 102% requirement is that the additional collateral on a security with a one-day maturity is expensive to the bank and the cost will simply be passed on to our insurance companies, providing less income. At all times we have more than 100% collateral but not necessarily 102% coverage. By any interpretation, we are fully covered with U.S. securities and agencies during the full time of any of our loans.

Perhaps we should recheck on the provision before instructing the banks of our need to hold 102% collateral, and see if 100% is allowable on issues with one-day maturities.

Mike Klyce

MJK/shg

REAL PROPERTY SOLUTIONS, INC.

PROFESSIONAL REAL ESTATE ANALYSIS, VALUATION, COUNSELING & Brokerage



APPRAISAL REPORT (COMPLETE, SUMMARY REPORT)

PROPERTY

30.76± Acres Vacant Land
Liberty Park
Vestavia Hills, Jefferson County, AL
RPS FILE: 2003-008

FOR

Mr. Duncan Hamilton
Liberty National Life Insurance Company
P. O. Box 2612
Birmingham, Alabama 35202

EFFECTIVE DATE

February 18, 2003

REPORT DATE

February 26, 2003

Six Office Park Circle, Suite 120
Birmingham, Alabama 35223
(205) 879-4529
<http://www.rpsol.net>

REAL PROPERTY SOLUTIONS, INC.

Professional Real Estate Analysis, Valuation, Counseling, & Brokerage

Street Address

6 Office Park Circle, Suite 120
Birmingham, Alabama 35223

Mailing Address

P. O. Box 531092
Birmingham, Alabama 35253

Phone: 205-879-4529

Fax: 205-879-4530

e-mail: brps@rpsol.net

Internet URL: <http://www.rpsol.net>



T. Julian Skinner, III, MAI, CRE*

Joseph R. Skinner*

M. List Underwood

**Alabama Certified General Real Property Appraisers*

February 18, 2002

Mr. Duncan Hamilton
Liberty National Life Insurance Company

P. O. Box 2612
Birmingham, Alabama 35202

RE: 30.76± Acres Vacant Land
Liberty Park
Vestavia Hills, Jefferson County, AL
RPS FILE: 2003-008

Mr. Hamilton,

In accordance with your request, we have made an appraisal of the above-referenced property for the purpose of estimating the market value of the leased fee and fee simple interests in the subject. The effective date of the valuation is February 18, 2002, the last date of physical inspection. It is the writers' understanding that the function of the appraisal is to assist with internal decision-making concerning the possible purchase of a partner's interest in the subject property. The property was valued based on the Market Value definition reproduced in this report. Under Standards Rule 2-2 of the Uniform Standards of Professional Appraisal Practice of the Appraisal Standards Board, this report is classified as a *Summary Appraisal Report*.

As stated in the Appraiser's Certification within the body of the report, the compensation for this appraisal is not contingent upon any action or event resulting from the analysis, opinions, or conclusions in, or the use of the enclosed report.

The reader's attention is directed to the general Assumptions and Limiting Conditions contained within the attached report. In addition, the special Assumptions and Limiting Conditions are detailed as follows:

1. The writer's were provided with a tax parcel of the subject property. This map indicates a site size of 30.76± acres of land area. The survey was prepared by Walter Schoel Engineering Company and is dated February 2003. If any current survey indicates a different size, than changes may be made accordingly.
2. No environmental studies were provided to the writers. It is assumed that there are no environmentally hazardous conditions on the property. Should later information reveal that this is not the case, the value conclusions reached herein would need to be amended accordingly. **The readers' attention is directed to general Assumptions and Limiting Conditions 13-15, which relate to environmental hazards.**

3. No legal description was provided to the writers.
4. It was the writer's instruction to value the property as a whole even though the property is divided into lots and at one point has a dedicated road that divides a part of the property. We were to value the property as if it would be sold to one party as a whole.
5. **The purpose is to develop a value in accordance with the requirements of the State of Alabama Insurance Department as is for their internal use.**

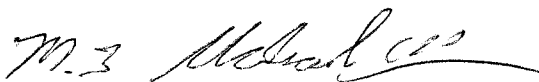
This appraisal was developed as a "complete" appraisal in accordance with Standards Rule 1 of the Uniform Standards of Professional Appraisal Practice (USPAP). This appraisal is being reported as a "summary" report in accordance with Standard Rule 2-2(b) of USPAP. This assignment was made subject to regulations of the State of Alabama Real Estate Appraisers Board. The undersigned state certified appraisers have met the requirements of the board that allow this report to be regarded as a "certified appraisal."

We trust you will find the attached appraisal report satisfactory; however, if any further assistance is needed, please notify us accordingly.

Very truly yours,
REAL PROPERTY SOLUTIONS, INC.



T. Julian Skinner, III, MAI, CRE
Alabama Certified General Real Property Appraiser #G00070



M. List Underwood III
Alabama Trainee Real Property Appraiser #T01097

MLU/TJS

SUMMARY OF FACTS AND CONCLUSIONS**PROPERTY IDENTIFICATION:**

30.76± Acres Vacant Land
Liberty Park
Vestavia Hills, Jefferson County, AL
RPS FILE: 2003-008

CLIENT:

Mr. Duncan Hamilton
Liberty National Life Insurance Company
P. O. Box 2612
Birmingham, Alabama 35202

PROPERTY OWNER:

Liberty National Life Insurance Company

LAND SIZE:

30.76± Acres or 1,339,992± Square Feet

ESTIMATED MARKET VALUE:

\$5,360,000

ESTIMATED MARKETING PERIOD:

12 to 24 months

ESTIMATED EXPOSURE TIME:

12 to 24 Months

DATE OF VALUATION:

February 18, 2003

DATE OF REPORT:

February 26, 2003

APPRAISERS:

T. Julian Skinner III
Alabama Certified General Real Property Appraiser #G00077

M. List Underwood III
Alabama Certified General Real Property Appraiser #T01097

LIBERTY NATIONAL LIFE INSURANCE COMPANY
BOARD OF DIRECTORS CONSENT
IN LIEU OF SPECIAL MEETING

The undersigned, constituting all of the members of the Board of Directors of Liberty National Life Insurance Company, acting pursuant to Section 10-2A-66 of the Code of Alabama 1975, do hereby consent to the adoption of the following resolutions by unanimous written consent in lieu of a special meeting and direct that this consent be placed with the minutes of the proceedings of the Board of Directors of the Company:

WHEREAS, the Company has for a number of years participated in that Consolidated Tax Allocation Agreement dated August 29, 1990 among Torchmark Corporation and its various subsidiaries listed therein, effective as of January 1, 1989 (the "Tax Allocation Agreement"); and

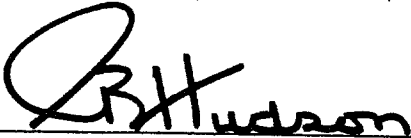
WHEREAS, it has been determined that it is necessary pursuant to statutory accounting practices that the Board of Directors of the Company approve the Tax Allocation Agreement and ratify the Company's participation in such agreement.

NOW THEREFORE BE IT RESOLVED, that after review and deliberation, the Board of Directors of the Company hereby approves, for and on behalf of the Company, the attached Tax Allocation Agreement, effective as of January 1, 1989.

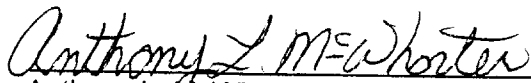
RESOLVED FURTHER, that the Board of Directors of the Company hereby ratifies, for and on behalf of the Company, all actions taken and all filings and documents submitted pursuant to said Tax Allocation Agreement from and since January 1, 1989.

RESOLVED FINALLY, that officers and employees of the Company are hereby authorized and directed to take all actions and to execute and file all documents, instruments, returns and other submissions necessary or desirable to effect and implement the Tax Allocation Agreement on a continuing basis.

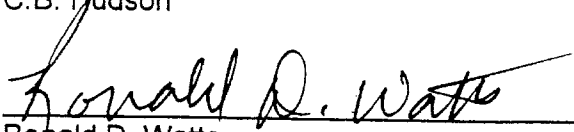
Dated this 2nd day of December, 2002.



C.B. Hudson



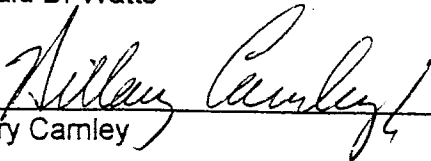
Anthony L. McWhorter



Ronald D. Watts



Larry M. Hutchison



Hillary Camley

RECOMMENDATION PAGES 54 AND 55, ITEMS ON PAGES 36, 37, 39 OF THE REPORT

The Company has demonstrated during the examination that the cash surrender value is a reasonable proxy for the CARVM reserve. The Company plans to follow other recommendations regarding aggregate reserves and policy and contract claims.

Hung C. Chou
Chief Actuary
June 5, 2003

RECOMMENDATION PAGES 55 AND 56, ITEMS ON PAGE 40 OF THE REPORT

The Company plans to recoup \$121,813 of legal fees incurred by Torchmark Corporation but paid by Liberty.

The Company has requested outside counsel provide invoices which give adequate description of the items charged.

Duncan Hamilton
Counsel
June 5, 2003